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With The Editors

Resolutions for 1939

SOME one asked us not long ago what the most common fault of the average investor is. Of course there isn't any single fault, whose correction would insure successful security operations any more than there is any "average investor." There are numerous faults that, in the approach to the security markets, are common to all of us in varying degree.

Here are some of the principal ones, time-worn and familiar perhaps, but nevertheless all too frequently forgotten. We have turned them into a brief set of guides, but they might be given more enduring usefulness by adopting those which apply to you and transforming them into New Year's Resolutions:

Know your company before you buy its securities. Balance sheets and income statements may be dry reading but understanding them thoroughly is good insurance.

Don't be influenced by consensus psychology. When everybody agrees on the next move, the market has a perverse way of doing the opposite. Time your purchases and sales. Let them have them when they look good. Buy them when nobody appears to want them.

Decide when you make a commitment whether you are speculating or investing. Differentiate between long term and short term objectives. In other words, don't "buy for a trade" and, when it goes against you, "hold for investment."

Limit losses. If you are wrong, take your loss while it is small.

Balance your holdings to suit your requirements. Decide how much of your funds you can speculate with, if any; and stick to that proportion. Put the rest in a diversified backlog of sound bonds, preferreds and high grade commons.

Don't be lured by the siren of high yield. An above-average return is more likely to be a warning than an opportunity.

Don't buy and put away. No security is good enough to forget about. Constant vigilance is necessary even to the preservation of principal, let alone its growth.

Earnings trend has the greatest influence on price. Prospective earnings are therefore more important in fixing market values than past or current earnings. More is usually to be made in a stock whose earnings are just turning from red to black than in one whose earning rate is established.

Good resolutions made on January 1 are worthless if forgotten by February 1.

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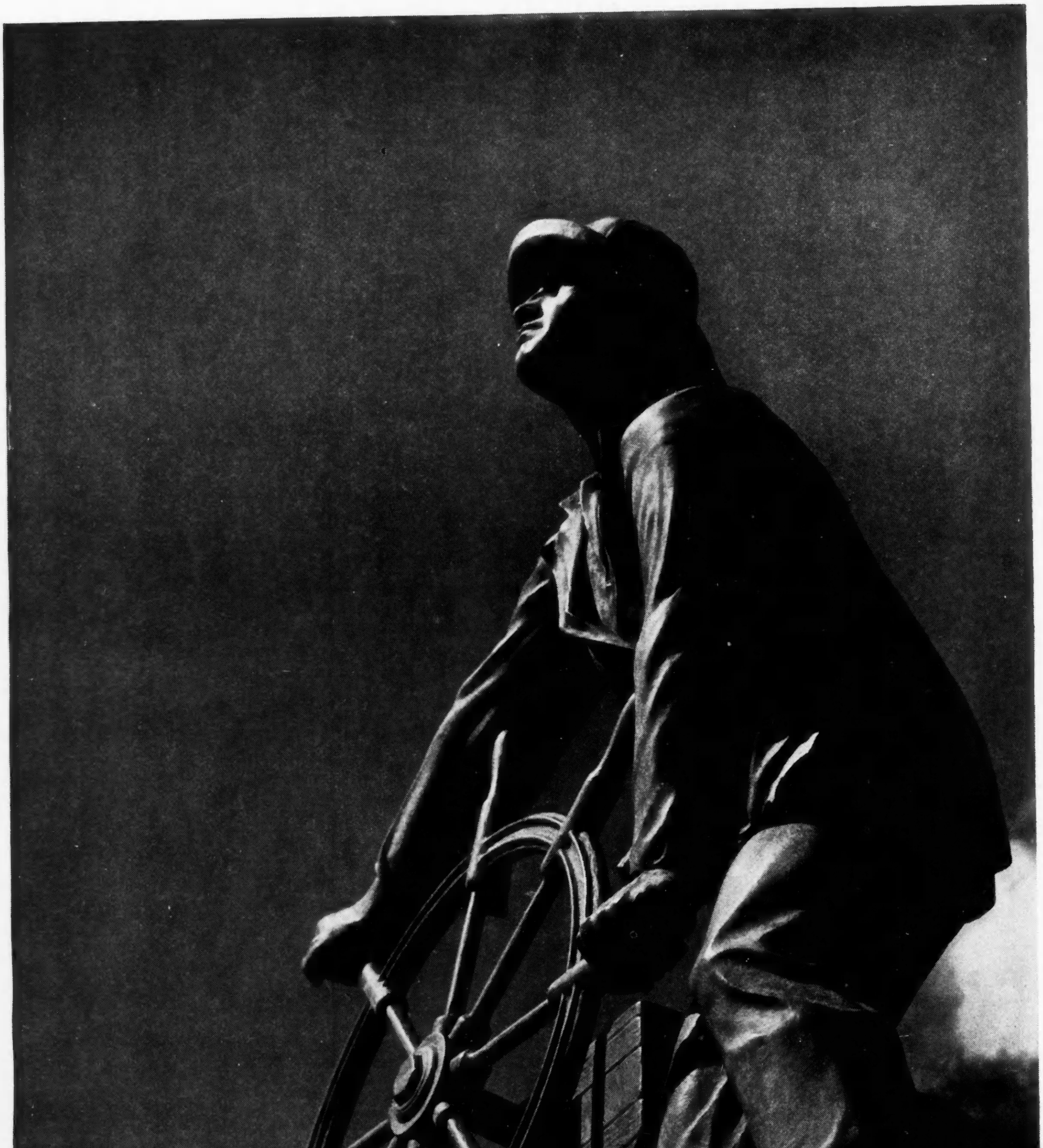
* * * IN THE NEXT ISSUE * * *

Ten Market Leaders for 1939

Selected by THE MAGAZINE OF WALL STREET Staff

Sound stocks which in our opinion have the greatest market potentialities during the next twelve months.

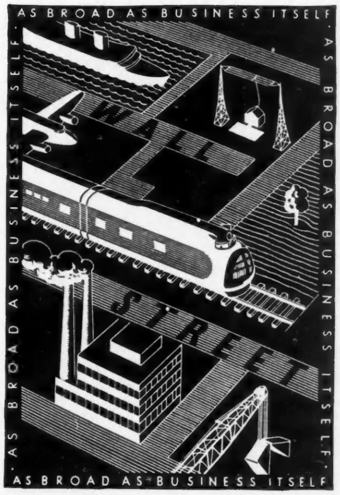


Gendreau

For 1939—Except for war clouds visible on the horizon, indications are for generally clearing weather.

THE MAGAZINE OF WALL STREET

E. Kenneth Burger, *Managing Editor* : C. G. Wyckoff, *Publisher* : Laurence Stern, *Associate Editor*



The Trend of Events

POTENTIALITIES OF PROSPERITY . . . The New Deal spends a great deal of money and what it spends out of borrowed funds is very important to business, but few people can conceive of the magnitude of our total spending activity, private and public. The best measure is debits to individual accounts of member banks in principal cities. For 1937, peak year of business under the New Deal, the total was $469,463,000,000. Excluding New York City to eliminate influence of security market activity, the total for 140 other cities was $235,206,000,000—a vast bit of spending but 30 per cent under the 1929 level.

Last spring the country's spending rate, as measured by this indicator, was approximately 17 per cent lower than in the spring of 1937. By early autumn the drop from a year ago had been cut to 9 per cent. In recent weeks the spending rate has been approximately 4 per cent less than a year ago. With allowance for lower prices, bank debits make at least a moderately favorable comparison with a year ago but such comparison, of course, is with a relatively low and declining 1937 rate.

The only inference to be drawn at present is that industrial production appears to be in fairly close balance with consumption, taking bank debits as a measure of the latter. Our total spending of bank money to date has not increased anywhere near in proportion to the vast increase in the supply of bank money brought about during the past eight months by Government borrowing, desterilization of Treasury gold and imports of gold. If the American people should some day shake off the inhibitions born of a long period of lean times and political uncertainties, and begin to spend present bank deposits at the rate of our spending in the 'Twenties—the result would be the most spectacular prosperity ever known.

WHERE ARE THESE UNEMPLOYED? . . . On some of our larger national problems it seems that the more statistics we have the less we can be sure of. For instance, estimates—governmental and private—of the number of people unemployed show that a sub-normal percentage of our total population is gainfully occupied. But the number of presumably employed persons registered under the Social Security Law gives the impression that a much larger percentage of the population is gainfully occupied than ever before.

When the Social Security Law was adopted it was officially estimated that approximately 26,000,000 wage and salary workers would come under its provisions, excluding all persons working for themselves, as well as farm labor, domestic servants, seamen, bank employees and employees of charitable organizations. Yet today, without any broadening of the classes eligible, the number of persons registered is approximately 42,000,000. Thus, the original estimate was 61 per cent wrong—suggesting a possible wide margin of error in elaborate calculations dealing with such difficult subjects as employment, na-

tional income, etc., even when made by reputable experts.

On the basis of 42,000,000 persons registered for Social Security, and taking into account estimates of the gainfully occupied who are as yet ineligible, it would seem that somewhere between 60,000,000 and 65,000,000 persons are gainfully occupied. But this would be from 46 to 50 per cent of the entire population, whereas the census figures of 1910, 1920 and 1930 showed an average of slightly less than 40 per cent of the population gainfully occupied.

Complicating the picture, of course, is the distinction between full-time workers and part-time or seasonal workers. We do not profess to know how this problem has been handled in taking census figures or in Social Security registrations. There is an apparent paradox, however, between prevailing estimates of unemployment and Social Security statistics. Our statistically-minded Government could add something to public enlightenment by attempting to straighten it out. Certainly it would seem that the Social Security records, properly broken down, could be made the most complete and up-to-date source of badly needed information on employment.

INCENTIVE TAXATION . . . The idea of "incentive taxation," aimed at encouraging profit-sharing and increased expenditures for betterment of industrial facilities, carries with it an attractive plausibility which will not stand logical examination. The defect in the proposal is that in basic principle there is no difference between a punitive tax levied for the purpose of restricting corporate activities which government deems objectionable and an "incentive" tax levied for the purpose of encouraging corporate policies which government believes to be desirable. In short, each is a regulatory tax rather than a uniform tax for revenues.

The ill-fated undistributed earnings tax was a regulatory tax. "Incentive taxation" would be equally unsound, and might be almost as vicious in operation. In hearings before a Senate committee, the proposal has been condemned by both segments of organized labor and by most business men who testified. Hence the chance of its being adopted appears remote. The best "incentive tax" would be a uniform percentage levy on business earnings at the lowest possible level. Unfortunately, nothing is likely to be done in that direction. Yet we can take some comfort in the tendency of Congressional minds—however misguided—to turn to the word "incentive" and away from the word "reform." At least the proposal was *meant* to help business.

BETTER AUDITS NEEDED . . . There can be no doubt that the deplorable McKesson & Robbins affair shows the need for more complete audits of corporation accounting, including increased check on physical inventories. The practical problems involved, however, are far from simple; and it is only fair to point out that the present universally accepted practices of public accounting firms cannot be expected to uncover criminality of the type involved in the McKesson & Robbins case.

It would be a new and added function for certified public accountants to check inventories—requiring much increased time and cost in audits. Both the Stock Exchange and the S E C urge the earliest possible issuance of annual balance sheets to shareholders. Balance sheets of the great majority of corporations are made up as of the end of the calendar year, putting a heavy seasonal burden on accounting firms. A possible improvement would be to supplement the present practice with interim audits of particular balance sheet items—including inventories—and to make such interim audits at irregular times without advance notice to managements.

RAILROAD REMEDIES . . . The most important recommendation to be made by the President's railroad committee is that the law be changed to give railway managers much increased leeway for experimentation in rate fixing. Since this proposal apparently will be backed jointly by rail management and rail labor, it should have a reasonably good chance of adoption by Congress despite opposition from some shippers.

It is conjectural, of course, whether authority of private management to adjust rates to competitive needs would either solve the "railroad problem" or be wisely used in all instances. But in principle the idea is sound. Moreover, there are but two options open to us in rate making: 1, to restore freedom of private managerial judgment; 2, to drift ever further into Government management. The railway transportation monopoly, which brought the Interstate Commerce Commission into being, has long since ceased to exist. Reflecting this basic economic change, the Commission has become increasingly a paternalistic manager of the railroads rather than a protector of the shipping public against exorbitant rates. The present plight of the roads is sufficient commentary on the quality of such political management. The first need of the rails is more traffic. Maybe it cannot be had, but clearly the only possible way of getting it is to make rates that will attract it; and the only way of making such rates is through flexible experimentation.

The committee's other proposals to Congress will be less controversial. They include repeal of the long and short haul provisions of the law; repeal of the land grant statutes under which the Government now gets sharply reduced rates on a substantial volume of freight; sale of the Federal barge lines to private interests, without public subsidy; improved procedure for reorganizing bankrupt railroads; and enlargement of the Reconstruction Finance Corporation's railroad lending activities. The wisdom of more Government loans to the roads will depend entirely on the uses to which the money is put. Borrowing to service present debt would be futile. Borrowing for maintenance of way has scant merit. On the other hand, Government loans for purchase of modern rolling stock would be self-liquidating and would produce important savings in operating costs.

As I See It!

BY CHARLES BENEDICT

THAT FASCIST CRY OF—"COMMUNISM"!

WHENEVER the three fascist dictatorships meet opposition in any country, they accuse that government and its leaders of communistic tendencies.

When they wish to interfere in the internal affairs of a nation, they send troops to "preserve order—to prevent a communistic uprising—to rescue minorities."

From what has already taken place in Spain, Austria, Czechoslovakia and elsewhere, we know that such talk is just plain "eyewash" used by the Nazis to mask the real purpose, which was banditry and conquest.

However, in spite of irrefutable evidence that the cry of communism is only a catchword, they succeed in winning great victories without firing a shot because most people think of communism in terms of the Russian Revolution with its complete destruction of property and wealth, its suffering and degradation. Yet this type of revolution is completely out of fashion today. The adventurers who seek to carve out a dominant place for themselves have learned the error of these ways. They see the greater advantage of taking over with "business as usual going on while alterations are being made." They prefer factories with machinery in running order, crops standing in the field, cattle in the barn, raw materials intact, a full larder—just what the Nazis insisted on having when taking over the Sudetenland.

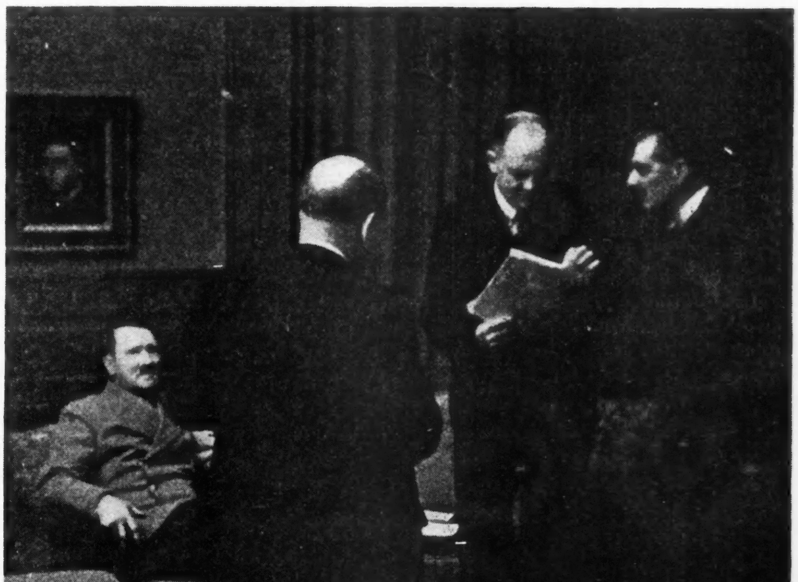
Actually, the *nazism of today* is the *communism of tomorrow!*

Together with fascism, these three dictatorships are equally red, and have their roots in the Lenin theory of totalitarianism. The differences are only of method.

The keynote of all these revolutions is spoils for the victor—the lure that wins adherents! The Nazis because of their aggressiveness have opened up the whole field of adventure—with a ruthlessness and greediness that makes nazism rather than communism the menace of the world today because *communism lacks the executive, industrial and financial brains necessary for domination!*

It was the Munich Pact which elevated the Nazis to dominant power. It is now very clear—if ever there was any doubt before—that it was a deliberate decision on the part of Chamberlain and the ruling powers in England to throw their lot with the Nazis against what they believed was to be the other alternative—communism. Why? Because they, like others, had been led to believe that the nazi and fascist ideology is the rebuilding of the state by gradual elimination of the evils thereof and is, therefore, more desirable if changes are inevitable.

This delusion has been completely shattered by events in Germany which have taken place since, but too late to save England from a decline to the position of a second rate power. The capitulation of England was too sweeping: 1—A free hand in eastern Europe and the Ukraine. 2—The return of the African colonies. 3—A financial loan of large proportions. All this was tribute paid to ward off (*Please turn to page 340*)



Fox Movietone News

"Still" showing the reception of Chamberlain at Munich.

Market Headed for New Peaks?

We believe the market's technical readjustment has been completed and that it is now in a sound position to begin discounting the next phase of economic recovery. Investment and intermediate trading purchases are recommended.

BY A. T. MILLER

ONLY the more impatient bulls can quarrel with the narrow fluctuation and absence of significant change in the market during the past fortnight. Even these may soon have cause to feel better about the matter, for as this analysis is written—just one day before Christmas—the good cheer of the season has begun to make itself apparent in a more confident demand for stocks. Rally at this time is one of the most consistent of all market habits and in a topsy-turvy world we can take some comfort in this mite of normalcy.

Looking behind the immediate technical picture, the recent sidewise drift of the market extended the opportunity to make investment and intermediate trading purchases as recommended here two weeks ago, resulted in the accumulation of additional technical strength which will come in handy during coming weeks, and carried further the corrective process of gearing the level of stock prices to the realities of business activity and corporate earning power.

With the exception of the brief bulge around election time in November, the volatile Dow-Jones industrial index has been confined within a 10-point trading range for more than ten weeks, and within approximately a 5-point range for five weeks. Meanwhile, industrial activity has shown persistent expansion.

For the market as a whole the recent movement of our weekly index of 330 stocks reflects a technical readjustment which we believe to be fully adequate for some time to come. At its December low this average had cancelled approximately a third of the entire advance from the bear market low of last March and was back to the level of mid-July.

At the autumn highs the industrial leaders had advanced some 60 per cent in less than eight months; and our 330 index, reflecting the usual wide percentage movement of secondary stocks, had advanced approximately 77 per cent. Such advance was, of course, abnormally fast. The October-November reaction in the 330 index and the ten weeks of trading range fluctuation in higher grade industrials have served the double purpose of strengthening the market's technical position and of holding the bull movement in check while business activity and earnings came up into line.

We see nothing of serious vulnerability in either the present market level or the present economic picture. The great majority of stocks are at prices which represent an average recovery of only one-third of the bear market decline. Our per capita business activity index has recovered only 56 per cent of the depression decline and is yet at a level some 13 per cent under the so-called normal period 1923-1925. The recovery cycle is but eight months old, in contrast with five-year duration of each of the two preceding cycles of major expansion. As yet the breath of revival has but barely touched some of the more important capital goods industries. There has been no inflation of commodity prices or of inventories. Business borrowing remains at a very low ebb. Industrial production appears in pretty close balance with a gradually rising level of consumption, as shown by statistics of consumer expenditures. Finally, the general attitude of business men, investors and speculators seems cautious. They are hopeful, but on guard. At a really dangerous level in the ecenomic cycle they are optimistic and *not* on guard.

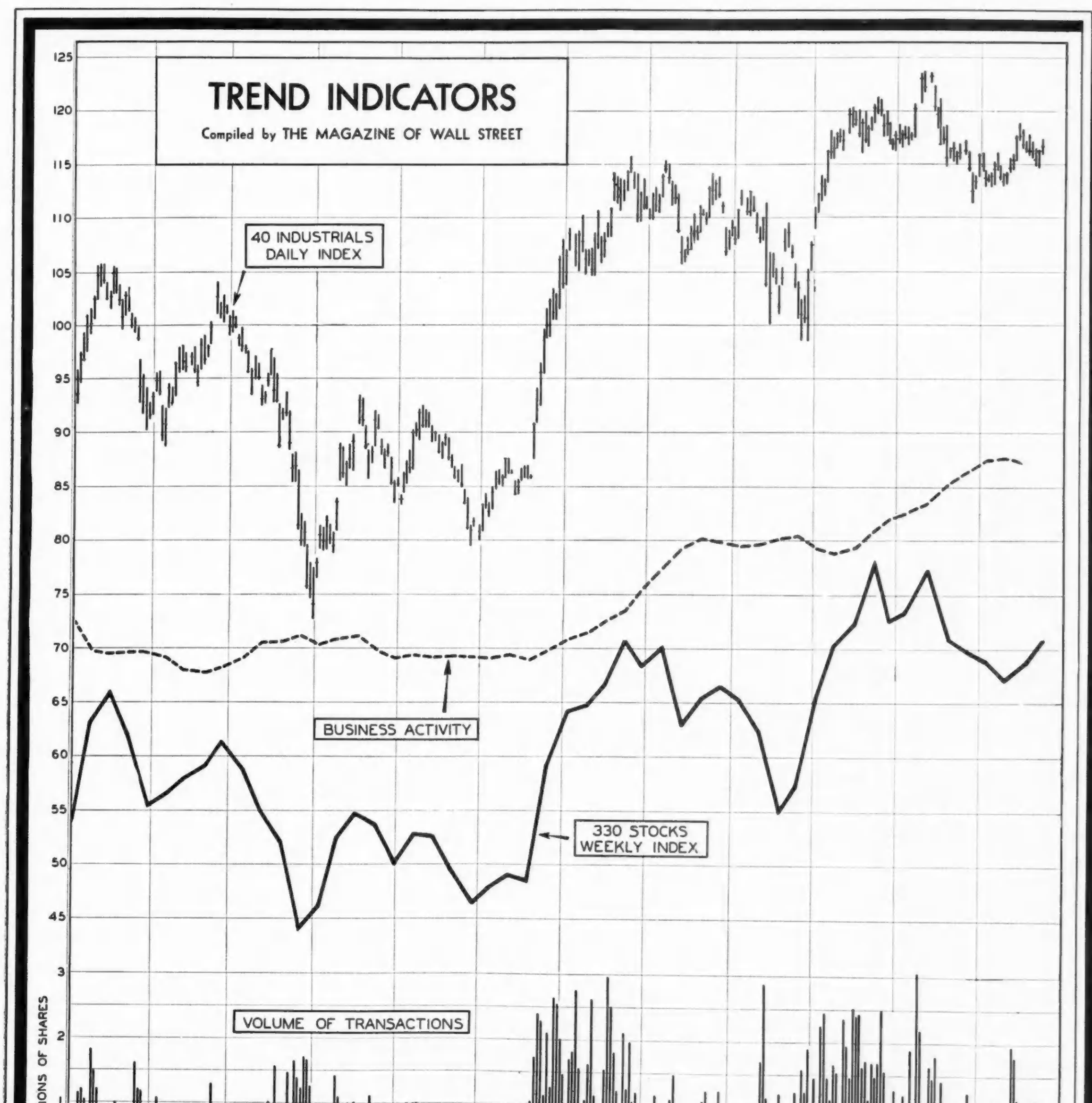
The outlook, of course, is not cloudless. Many thoughtful people are genuinely worried over the drift of affairs in Europe. In high places there are fears of a European war, possibly beginning next spring. Yet it seems to us that the stock market must become reconciled to a more or less chronic condition of crisis in Europe or else go out of business. No stable European peace is in sight, but none has been in sight for a long time—and meanwhile repeated threats of war have proved but temporary influences on our markets. It is our feeling that if Great Britain and France would not go to war to preserve Czechoslovakia, there is scant reason to fear that they will war to preserve the Ukraine. We are not at all sure a German-Russian war is on the horizon, and even if it is we doubt that a conflict between these two particular nations would give our markets much concern.

Some people question how long Government pump-priming will contribute to bank credit inflation and rising business volume. In our opinion, Government borrowing in 1939—and consequent expansion of bank deposits—will substantially exceed that of 1938. There is no end in sight to the inflow of gold from abroad, which is also inflating the bank credit reservoir.

There are skeptics who doubt that the market can get anywhere because of uncertainty as to what the new Congress will do. We have had some very good markets at times when the general temper of Congress was far more uncertain than it is now. Indeed, we think Congress is about the least of our worries. The reform era is over. The era of consolidation is beginning.

Others point to a January-February pause in business recovery as a possible restraining influence on the market. That *has* been a restraining influence for some weeks. It should not prevent an upward trend of stock prices based on hopes over a somewhat longer time range. Moreover, doubt regarding early 1939 business is being so generally taken into the reckoning that it becomes almost a positive bull point. The recent upturn in prices of sensitive industrial raw materials may be a straw in the wind pointing to better nearby business than is generally anticipated.

Stocks are a buy for investment and intermediate trading purposes. Secondary issues should outrun industrial leaders in percentage gains.—Saturday, December 24.



The 1939 Congress

What It Can and Cannot Accomplish for Business

BY RAY TUCKER

The Congress which assembles next week will exhibit an altogether different attitude toward private enterprise from that entertained and exercised by any national legislature in the last ten years. The harassment of natural economic forces which began soon after the 1929 crash—that is, even under Herbert Hoover's regime—will be supplanted by a desire to cooperate with business and industry. No new and radical reforms will be enacted, and those now in effect will be revised in accord with the dictates of common sense, experience and political pressure from a people anxious to get back to work.

The causes are political and economic. Rooseveltian reverses in the purge and in the November elections, especially as they were registered in both farm and industrial areas, revealed a definite trend to the right. There is also the very human weariness of reform and a natural desire to consolidate social gains rather than venture into new and unknown fields. Perhaps even more important, there exists the belief that the nation faces a sharp economic upturn for the next few years, and that it would be folly to tamper with it at this particular moment.

Conservatives in the Saddle

From the parliamentary standpoint alone, conservatives on both sides of the aisle will possess a definite advantage. In the House the Republicans will have 170 members, and these will align with sufficient anti-New Deal Democrats to checkmate the Administration extremists. A careful check since the late election discloses that the White House will be lucky if it can muster thirty-five Senators on behalf of liberal legislation. It must also be remembered that the rebels have been inspired and encouraged by evidence at the polls that they can resist presidential pressure without jeopardizing their public careers.

Members of Congress—both veterans and newcomers—have indicated that they will seek the advice of local business men and bankers and industrialists in coming controversies. Reliable reports reach the Capitol that, for the first time in years, Congressmen are consulting the leading citizens of their cities and towns as they prepare for the session. Washington's citadels of big and little business—the National Association of Manufacturers and the Chamber of Commerce of the United States—have received more requests for their legislative reports than in a decade. It suggests the existence of a belief that, since government has failed to produce recovery, the legislators are again turning to business and industry for an old-fashioned recipe.

The approach of 1940 furnishes another factor making for conservatism, especially among the Democrats. Their leaders, especially Vice-President Garner, realize that they may meet defeat unless they can convince the people that the radicals, the crackpots, the braintrusters, the trouble-makers do not control the Congress or the party. In his historic conference with Mr. Roosevelt on December 18, the Vice-President served notice that it was time "to get on or off"—meaning that the head man must decide now whether to remain a Democrat or trail along with the Cohens and Hopkinses and Corcorans. Mr. Garner, incidentally, voices the attitude of a majority of the party membership on and off Capitol Hill.

Though the President will not publicly surrender, there is warrant for the suspicion that he has read the handwriting on the political wall. For one thing, he does not intend to submit any hard-and-fast program with a demand that Congress rush it through without study or change. He intends to recommend rather than command. Moreover, his proposals will be the product of commissions which have been giving serious study to such questions as railroads, social security, government reorganization, federal finances, etc. It appears as if he is willing to permit Congress to take the lead in sponsoring and acting on legislation.

Under these circumstances the likelihood is that Congress will confine itself to repolishing and redecorating existing agencies and experiments, the N L R B, A A A, Social Security, etc. If the President accepts the changes, the result will be a harmonious compromise with no ear-splitting or head-splitting. It he doesn't—that is, if Congress affronts him by trying to cripple his pet projects or proposals, the prospect is a stalemate after a long session of recriminations and intra-party disputes. Since both factions — Mr. Roosevelt's and Mr. Garner's — wish to avoid open warfare in the face of G.O.P. gains and the 1940 contest, some sort of cautious agreement as regards more controversial ques-

tions appears to be the more realistic outcome.

Agriculture presents, in miniature, the kind of problem which confronts the White House and Capitol Hill, and the pattern they may adopt in meeting this and similar difficulties. Although the farmers have registered their dissatisfaction with present low prices, with compulsory controls and the system of marketing quotas, they still feel that some sort of A A A offers the most feasible chance for farm recovery. Secretary Wallace is not entirely happy over the operation of his program, but he believes that it is entitled to further trial. If the legislators want to revise certain phases of the A A A, he takes the position that he will be glad to cooperate.

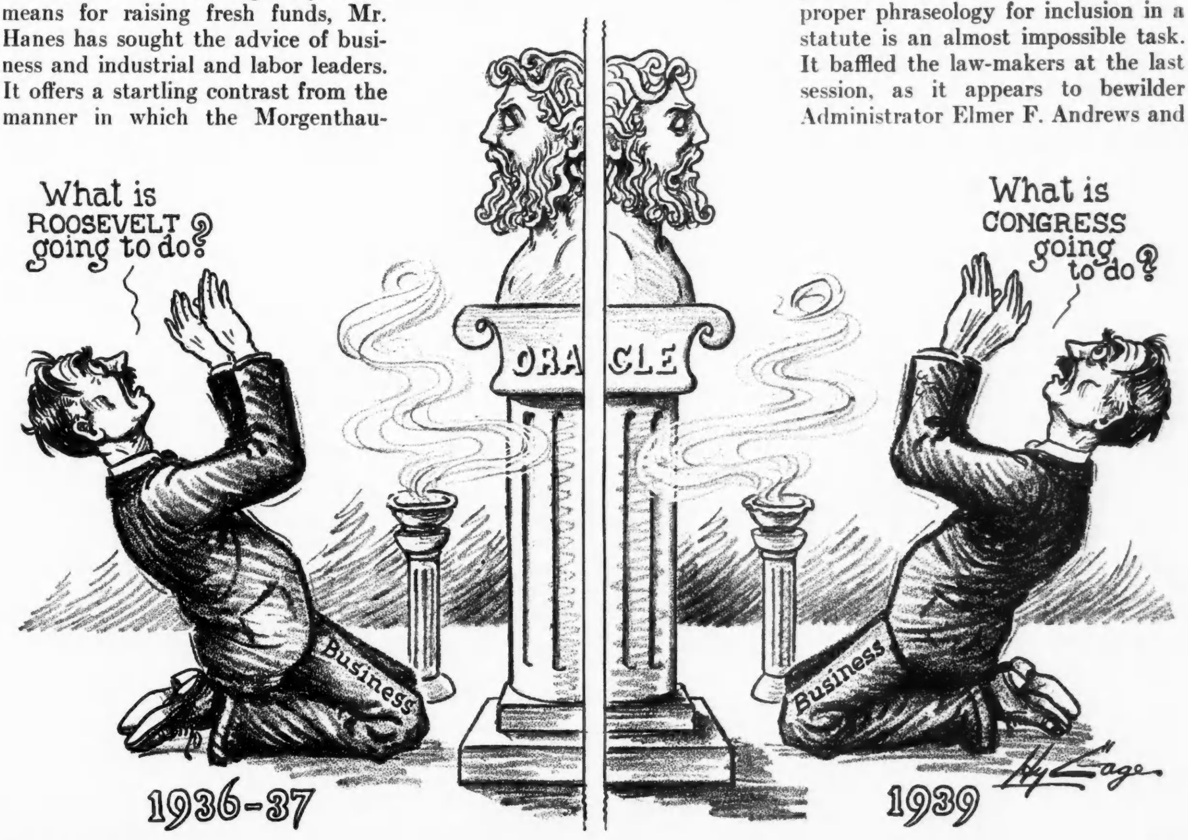
Nobody anticipates any major tax legislation. It will be necessary to renew the nuisance taxes, which expire on July 1, but the government's need for money will silence solid objections to these burdensome levies. Secretary Morgenthau may renew his drive for taxation of exempt securities, and also for taxation of state and local salaries, but it is doubtful if he can achieve his aim at the moment. Such a novel step must wait upon a complete overhauling of the tax structure, which will hardly be attempted until after the 1940 election.

More important than specific tax legislation, however, is the Treasury's new attitude toward this question of so much moment to business and industry at this particular time. The problem of seeking more money without harming private enterprise still more seriously has been entrusted to John W. Hanes, former Wall Street broker. He supplants Herman Oliphant, author of the undistributed surplus levy, and his methods are distinctly different. In discussing ways and means for raising fresh funds, Mr. Hanes has sought the advice of business and industrial and labor leaders. It offers a startling contrast from the manner in which the Morgenthau-Oliphant attacks on capital were thrust on an unsuspecting nation almost overnight. The Treasury has learned, belatedly, that a nation can be taxed to death—or into economic anaemia.

A balanced budget for 1940 is out of the question. Congress will try to cut appropriations sharply, to abolish the system of granting lump sums for relief and P W A, but only a magician could bring forthcoming expenditures and revenues into line. Even with sensational recovery in the immediate future, it is doubtful if annual income will total more than $6,500,000,000, if that. And although Mr. Roosevelt will probably predict an outlay of only $8,000,000,000 in his forthcoming message, he will probably figure conservatively, as usual. A good guess is that the 1940 deficit will hover between two and three billion dollars.

The battle over confirmation of Donald Wakefield Smith's reappointment to the N L R B will set the stage for a vicious attack on this allegedly pro-C.I.O. agency, but radical revision of the board is only a remote possibility. Its author—Senator Wagner—has shown scant disposition to accept changes placing an employer on more equal footing with the employed in seeking rescue from costly and protracted jurisdictional disputes. Nevertheless, the fierce criticism to be voiced may temper the board's future rulings, especially as they have taken a more moderate view during the last few months of heavy bombardment.

There will be an attempt to amend the Wage-Hour Act so as to define what constitutes "interstate commerce" more precisely, and relieve employers from their present suspense, but finding the proper phraseology for inclusion in a statute is an almost impossible task. It baffled the law-makers at the last session, as it appears to bewilder Administrator Elmer F. Andrews and

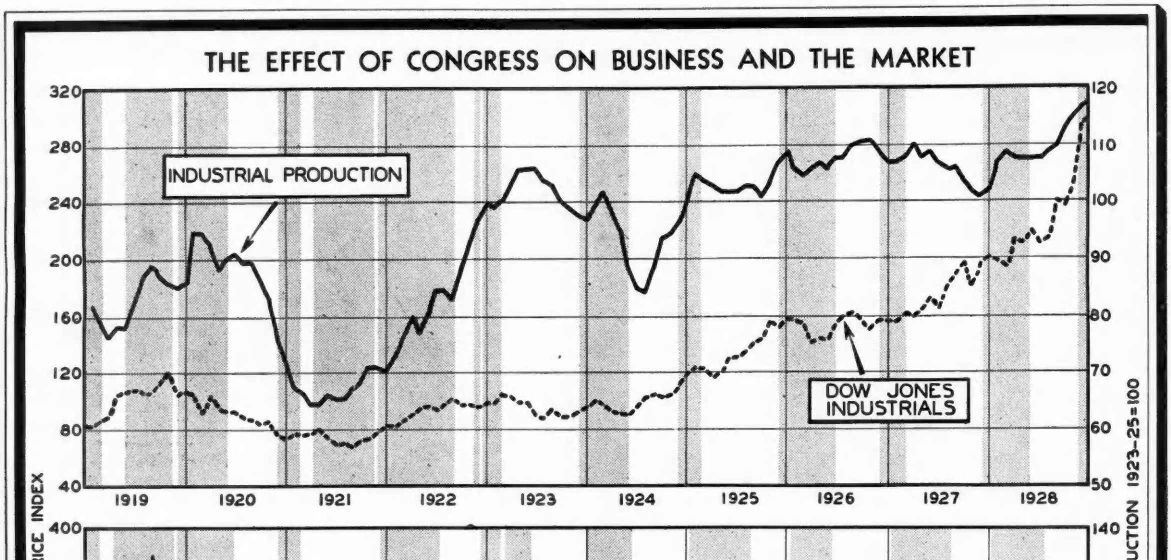


his legal staff. With respect to labor problems, the tendency will be to leave well-enough—or bad-enough—strictly alone. On the other hand, the period when labor had only to ask to receive, has ended.

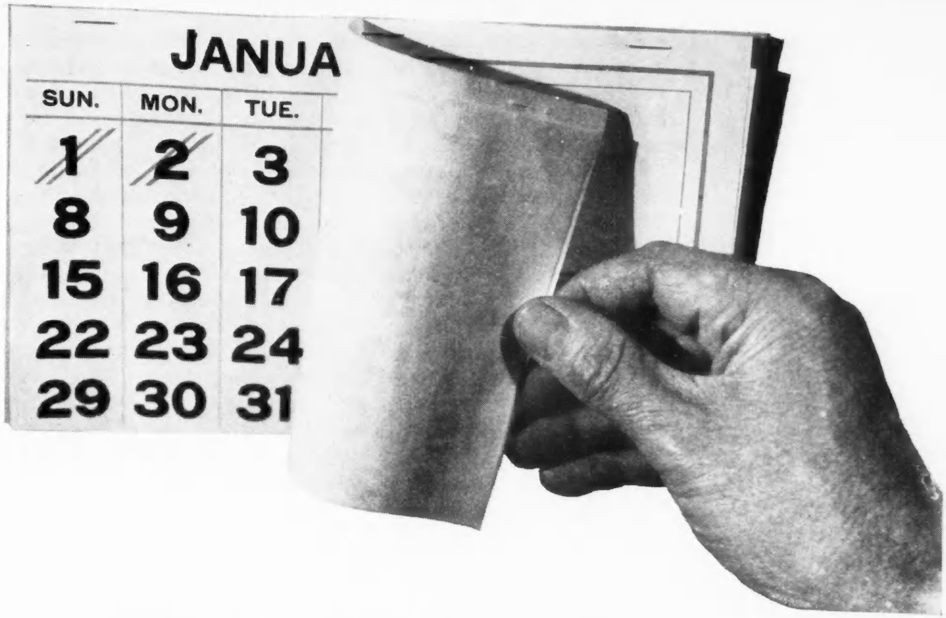
Congress will make a determined effort to give the taxpayer some relief from Harry Hopkins' kind of relief, but the movement will be tinged with politics. Enactment of a law to remove the W P A from politics, or vice versa, is assured. It will probably take the form of the Hatch bill which bars anybody receiving relief or holding political office from engaging in partisan politics, under heavy penalties. The Sheppard Committee which investigated campaign expenditures is certain to castigate the alleged abuses of relief funds, and to propose a remedy.

The clamor for a W P A housecleaning will sound like the chorus from "Hellzapoppin'," representing the almost universal conviction that this well-intentioned agency has been shot through with mismanagement and too tender a regard for people who can work but won't. One alternative contemplates forcing the states to bear a larger share of the cost in return for the right to dispense the funds. To that proposal, however, there has been raised the seemingly logical objection that few states can assume a greater financial burden now, and also that state politicians are quite as willing to "play politics with human misery" as are "the federals." That seems to be an improbable solution which Congress will not seriously consider.

The principal hope for W P A reform lies in the serious criticism that will be offered on the floor, a probable cut in relief appropriations and an insistence on weeding out the great army of shiftless who count on Uncle Sam to furnish them a lifetime job. (*Please turn to page* 342)



That other factors far outweigh the influence of Congress is demonstrated by observing the shaded areas, which represent sessions of the past 20 years.



Which Industries Have the Best Profit Outlook for 1939?

BY GEORGE W. MATHIS

In an analysis of the general business outlook, presented in the December 17 issue of The Magazine of Wall Street, it was forecast that volume for the first quarter of 1939 would approximate that of the quarter now ending, which means a level around 100 for the seasonally adjusted index of the Federal Reserve Board. This estimate compares with record of 79 in the first quarter of 1938, 116 in the first quarter of 1937 and 95 in the first quarter of 1936. It is worth noting that, with the exception of 1937, one has to go back to 1930 to find a first quarter business level as high as that indicated for the period just ahead.

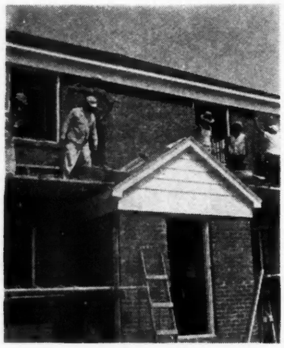
But while the composite picture appears favorable, there are wide variations in the performances that can be expected of individual industries in the months ahead. For instance, while total business activity at this writing is well above the average of the first quarter of 1936, the current demand for automobiles and electric refrigerators is less than it was in the final days of 1935, but the volume of construction is about 50 per cent greater on a similar basis of comparison. Again, the steel industry is now ahead of where it was at the turn from 1935 into 1936, but there is a lag thus far in farm equipment, heavy machinery, rail equipment and electrical equipment.

Even stocks of companies in laggard industries will participate to some extent in the bull market on hopes —justified in many instances—that a major improvement in orders is not far ahead. Nevertheless, discriminating appraisal of divergent industrial trends is in order both with respect to security selection and to the thought that the general recovery cannot long continue without greater aid than is currently being received from some of the important capital goods industries. We herewith present our first quarter forecasts for each of the important fields of industrial production, as well as for trade, railroads and electric utilities.

BUILDING — From present indications it is likely that residential building during the first quarter will exceed that of the first quarter of 1938 by at least 70 per cent. This indicates a dollar total for the 37 states east of the Rocky Mountains of approximately $265,000,000, as compared with $155,000,000 a year ago and $250,000,000 in the first quarter of 1937. Total construction volume for the thirty-seven states in the first quarter is estimated at about $900,000,000, as compared with $541,000,000 a year ago and $662,000,000 in the first quarter of 1937.

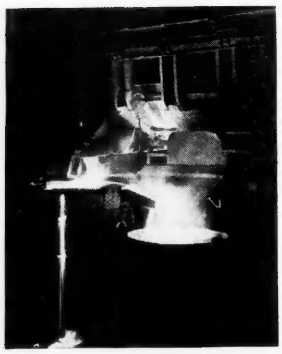
We are apparently assured of the best first quarter building volume since 1930, when the total was $1,097,000,000. Ending 1938—with a remarkably fast second half-year revival after a poor first half—total construction contract awards stand at a level approximately 27 per cent higher than the highest point reached in the 1935-1937 recovery cycle, if allowance for seasonal factors be made. The seasonally adjusted index of residential building is approximately 21 per cent above the highest point reached in the 1935-1937 recovery.

There is one fly in the ointment, however, and that is the fact that some 60 per cent of 1938 construction has been publicly financed. Moreover, contract awards have been abnormally accelerated in recent months to meet



the December 31 deadline on contracted projects under the new P W A program announced last spring. In short, so far as new awards are concerned, the big question mark for 1939 will be private construction. With P W A awards out of the 1939 picture — unless Congress should appropriate more money—it will take a very substantial gain in private building contracts to produce for the full year an expected gain of 10 to 15 per cent in total awards, as compared with 1938.

It is important, however, to note that difference between heavy P W A awards in the quarter now ending and no such awards in the coming quarter is wholly meaningless so far as concerns effect on business activity and sales of building materials. A building project is still on paper when the contract award is made. Public works awards made during the second half of 1938 will be reflected in the actual erection of structures, employment and demand for building materials throughout 1939 and especially during the first half of 1939.



Reversing the 1938 relationship, the largest percentage gains in 1939 building will be in privately-financed work. As heretofore stated, there will be a very large increase in residential construction, aided by rising national income and continued availability of mortgage credit on attractive terms. Utility construction will show a substantial gain, since the electric power industry is heading toward a new peak of consumption. More moderate gains may be expected in commercial and industrial building but no semblance of an early boom as few industries are near capacity. While spring probably will bring some rise in building costs, there seems scant reason to fear a wage-price inflation such as curtailed building volume after the spring of 1937.

STEEL—During the quarter now ending the steel industry has operated at an average of about 54 per cent of capacity, the peak rate for the period and for the year having been 62.6 in mid-November. Bearing upon the first quarter prospect, it should be noted that the 54 per cent average operating rate of the past three months was attained with little help from such steel-consuming fields as railroads, farm equipment, machinery, refrigerators, electrical equipment and tin containers. Output of tin plate was abnormally low, due to a price uncertainty now removed. In short, the backbone of the fourth quarter improvement in steel was the motor industry, building and miscellaneous demand. First quarter steel takings by the motor industry probably will not be importantly more or less than in the quarter now ending, much depending on how the late winter retail sales trend influences the normally heavy operating schedule of March. Miscellaneous demand may be expected to increase somewhat from the fourth quarter level and further improvement in orders for structural steel is indicated.

On balance, the types of demand chiefly responsible for the fourth quarter rise in the steel rate will be operative in moderately larger degree during the coming quarter. In addition, rail buying is currently quickening and quite certainly will be a bigger factor in the first quarter than in the fourth quarter. The winter months will bring a seasonal rise in steel taking by the farm equipment makers, in preparation for their spring selling season. As compared with the fourth quarter, a large increase in output of tin plate is certain.

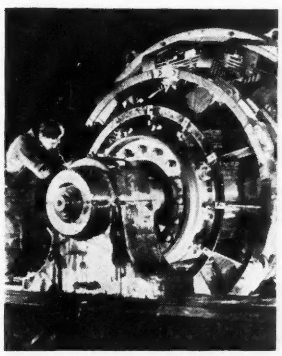
Thus analyzed, the prospect appears to be for a first quarter average operating rate between 55 and 60 per cent of capacity and perhaps a bit more. The 1938 first quarter average was 41.8; for 1937 it was 85.2; and for 1936 it was 52.8. In the initial three months of 1937 steel volume was by far the largest for any first quarter since 1929. With the exception of 1937, the first three months of 1939 will top any comparison since 1930. At or slightly above a 60 per cent rate, all leading companies will be well into black figures but, of course, far from maximum profit potentials.

AUTOMOBILES — Accurate forecast of first quarter automobile production is difficult, if not impossible, for while the industry is optimistic there will be at least some seasonal decline in output during January and February and the March production rate — March being normally the heavy production month of the first quarter — will depend entirely on the vitality of retail demand as demonstrated during the winter season. New car registration figures over the next month or two will throw much light on the matter. As this is written complete November sales data has not yet become available, but Detroit estimates put the month's retail deliveries of cars and trucks at approximately 228,000 units or 5 per cent less than in November last year. In relation to general business activity and the indicated status of public purchasing power, that is not a particularly good performance. Official figures of General Motors November retail sales appear to confirm the impression of a somewhat disappointing lag in consumer spending, which was visible also in November department store trade. For instance, for every 1 point in this publication's per capita business index General Motors dealers in November sold 1,559 cars and trucks, against 1,684 in November, 1936, and 1,700 in November, 1935. For every one billion dollars of total debits to individual bank accounts—such debits being a good index of the country's spending activity—the company's November retail sales were 7,937 units, against 8,392 in 1936 and 8,153 in 1935.

The apparent lag in con-

sumer demand for cars may be temporary, for it is reasonable to expect a further rise in national income and to believe that public spending psychology will become more confident as the recovery spiral takes firmer root. On the other hand, heavy automobile sales in the three years 1935-1937 may have made quite a dent in potential replacement demand; and it is open to doubt that the motor industry will play quite as dynamic a part in this recovery as it did in the 1933-1937 cycle. First quarter output probably will be somewhere between 1,000,000 and 1,100,000 units or not materially different from the performance in the quarter now ending.

MACHINERY—From the depression low last spring through August orders for machine tools showed a notably fast recovery but have since tended to level off. There has been no significant additional gains within the past three months. In the trade there appears to be confidence of a renewed upturn in both domestic and foreign demand in the forepart of the new year, but there is no statistical basis upon which a rational forecast can be made. By citing average age of existing machine tools, it can be demonstrated that there exists a great potential demand; and there is continuing pressure for more efficient and economical means of production. But over any short period demand for capital equipment depends mainly on the buyer's estimate of the nearby trend of his own business. Doubt as to additional gains in industrial production during the first quarter is fairly widespread. It may be that another period of active demand for machine tools will await establishment of a confident belief in the staying power and scope of the basic recovery cycle. The longer term outlook is favorable. Orders for heavy machinery continue to lag and it is to be doubted the picture will change materially over the next few months. In expansion and modernization programs that involve heavy industrial machines there is nothing now in sight to match the steel industry's major capital expenditure program of 1935-1937.



EQUIPMENTS — As heretofore indicated, consumption goods, building, automobiles and steel have largely dominated the recovery movement to date. It is characteristic, and therefore not particularly discouraging, that most types of producer goods come into active demand only after the recovery trend has been established some time. Surplus capacity has a more practical bearing upon such demand than the intangible factor of confidence in the longer outlook; and, generally speaking, we are not close enough to capacity production to force active demand for capital goods. The electrical equipment industry is a case in point. Fourth quarter figures will probably show a further moderate decline in backlogs and no appreciable gain in orders. The industry should benefit materially from first quarter building volume and probably can expect a moderate uptrend in utility buying. The first quarter will hardly bring important increase in orders from industry and the railroads. Outlook for marine equipment is favorable. For the aggregate of household appliances the first quarter volume probably will show a firm upward trend, although the recent lag in sales of refrigerators has been more than can be explained by seasonal factors.

Reflecting improved earnings, railroads in the past few weeks have begun to loosen up a bit on expenditures but thus far the movement represents buying of rails and other imperatively needed maintenance. Orders for rolling stock remain at a very low ebb, although here bottom without doubt has been put behind. First quarter car loadings will run well over the year-ago level but will leave a surplus of usable cars and locomotives. Before the end of the quarter we will probably have a pretty good idea of what the Government program for rehabilitation of the railroads will amount to. It may possibly point, directly or indirectly, to improved business for the rail equipment makers but will hardly affect demand during the period under analysis. Indeed, uncertainty as to the Government program is probably tending at the moment to defer formulation of railroad capital budgets.

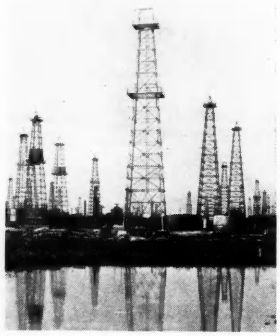
Outlook for the farm equipment makers during the first quarter is not bright, and it is probable that sales will run somewhat under volume for the first quarter of 1938. At best there is some lag between improvement in farm prices and farm income, and its reflection in demand for farm equipment. Whether the first quarter will bring material improvement in the economic status of the farmers is conjectural. Even should some betterment eventuate, it will hardly come soon enough to be much of a factor in the farm equipment industry's spring selling season. A major improvement in the industry's volume and profits apparently will have to wait until the second half of the year.

The office equipment makers suffered much less in the recent depression than did most capital goods activities and, among capital goods, are in the vanguard of recovery. For instance, sales of National Cash Register in the first nine months of 1938 declined less than 13 per cent and those of Remington-Rand less than 17 per cent. The recovery trend got under way in August, has apparently been well maintained in the fourth quarter and should go at least moderately further over the next three months. Orders for certain types of equipment have been stimulated by the Wage-Hour law.

CHEMICALS—The final quarter of 1938 has been by

far the best of the year for the chemical industry in both volume and profits. Additional gains over the next few months will probably be quite moderate. Demand for chemicals used in the steel industry and in manufacture of some types of building materials, including paints, figures to be better than in the fourth quarter. Demand reflecting activity in the motor industry, in textiles, in paper and in food processing probably will not be materially larger than in recent months. The long term growth factor in the industry remains highly favorable but is far less influential than the general business trend in effect upon quarterly fluctuations in volume. As heretofore forecast, the aggregate business volume of the first quarter will not differ importantly from that of the past three months. That generalization is probably near the mark for chemicals in the first quarter.

NON-FERROUS METALS — The longer term outlook for the major non-ferrous metals is brighter than the nearby prospect. In the first blush of recovery producers have kept generally to the cautious side in price and production policies and the basic position is sound. In recent weeks consumption and stocks of refined copper have been in close balance. The motor industry is one of the major outlets for non-ferrous metals and first quarter demand from this source will show no significant gain, if any, over the present quarter. Active building, however, should bring some first quarter betterment in consumption of copper, lead and zinc. The continued lag in the capital goods industries—especially electrical equipment—is a limiting factor in the nearby outlook. Stocks of zinc are a bit high and prices have been cut sharply in reflection of lower tariff rates effected in the recent British - American trade agreement. Lead prices have also been shaded in line with a lower world price, but stocks of this metal have continued to be curtailed. Over the first quarter a relatively narrow range of price fluctuation appears likely for non-ferrous metals.



OIL—This is the time of year when the over-production and price uncertainties of the oil industry are usually being actively debated—and when, more often than not, it has proved a favorable season at which to buy the oil shares. The December statistics have been moderately favorable, with consumption of gasoline estimated at 2 per cent more than a year ago and average daily supply of crude a bit less than a year ago. On present indications the price structure appears more likely to firm up over the next few weeks than to weaken. The first quarter, of course, is a season of high consumption of fuel oil and relatively low consumption of gasoline. On an average, earnings in the industry are far under year-ago levels and it is to be doubted that the first quarter will bring any important betterment in this respect.

UTILITIES & RAILS—At the year-end consumption of electricity is running about 6 per cent ahead of a year ago and a trifle above former all-time peak established in September, 1937. Although a record-high first quarter average is a possibility, significant gain over the present level is unlikely within the next few months, as industrial activity should be about on a par with that of recent months and significant nearby expansion in commercial and domestic consumption is improbable. The earnings trend of the better grade utilities is mildly favorable and the long term outlook has been materially bettered by the recent change in the political atmosphere.

Railroad car loadings in the first quarter should run 15 to 20 per cent above the year ago level, aided very importantly by the prospective activity in steel and construction and by a movement of bituminous coal—a major source of revenue—much heavier than in the first three months of 1938, although probably no greater than in the quarter now ending. With continued close control of expenditures, earnings of most roads will show large first quarter percentage gains, but from an extremely low base. Even a semi-profitable level of freight traffic will require a stronger recovery in the capital goods industries than is now in sight, and if the longer future is to be anything but very dubious the Government rail program now under consideration will have to work wonders.

FOODS—Generalization on the outlook for food processors is not feasible because of the great diversity of factors affecting volume and profits and the widely varying characteristics of the individual enterprises. The composite trend of food prices is currently downward, which puts pressure on profit margins of most processors although, for some, a low level of raw material costs is mildly favorable. In the entire field there are a few companies which consistently manage to do better than competitors under favorable conditions and to meet unfavorable conditions with but moderate curtailment of earning power. Ranking high among these are such as Beech-Nut Packing, General Foods and General Mills. It is to be doubted that the first quarter will see any improvement for the general run of dairy, bakery, canning and meat packing companies. For most in the food field taxes are increasingly burdensome and profit margins—always relatively narrow—are subject to unpredictable shrinkage from changes in supply-demand factors.

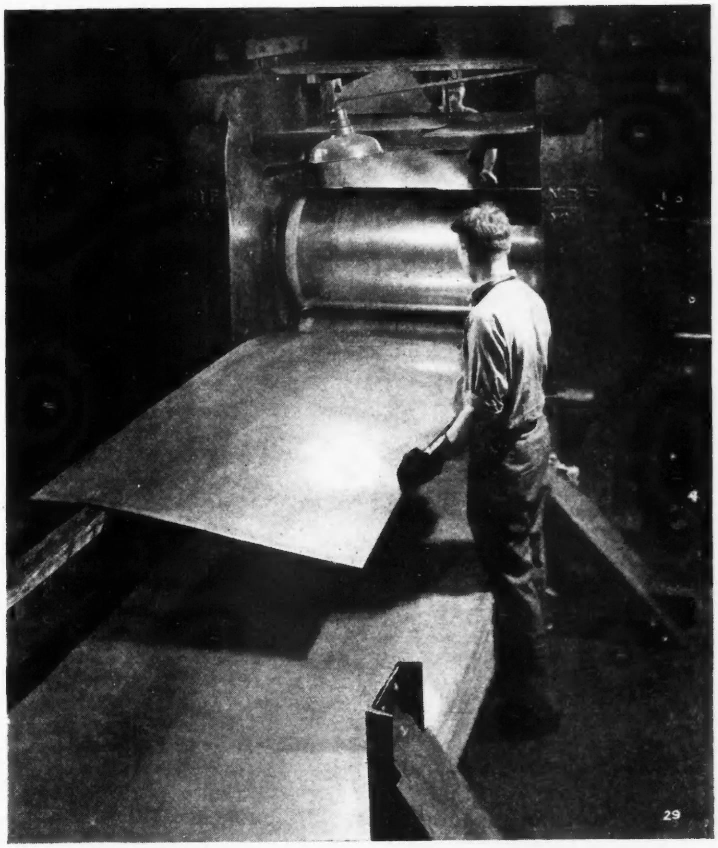
TEXTILES—As compared with a year ago, output of textiles has recovered very sharply, without aid of speculative forward buying. Stocks of fabrics and apparel in hands of manufacturers, wholesalers and retailers range from very low to moderate. The position is stable and should remain so through the first quarter, without material improvement. Since there is no apparent prospect of rising prices over the next several months, buying will remain geared closely to consumer demand, in which fluctuation—measured in physical volume—is very modest. Rayons have a better outlook than either cotton or woolen textiles.

MISCELLANEOUS—The boom in the aircraft manufacturing industry will continue, a fact so widely known that it is not news; nor is it subject to any possible controversy of opinion, except as to how far ahead the market has discounted earnings. *(Please turn to page 000)*

Your Stake in Republic Steel

Leverage accentuates possibilities— Variety of investment afforded

BY CYRUS G. V. WHITE



Cold-rolling a sheet at Republic's Massilon, Ohio, plant.

REPUBLIC STEEL earned nine million dollars in 1937 and has probably lost almost the same amount in 1938. That, you might say, is the nearest thing possible to a standoff over the two years. Unfortunately though, the sometimes vague quality of leverage becomes a very real thing here to the common stockholder of Republic, and against a profit of $1.19 a share in 1937 he faces a loss (if the nine million dollar estimate is correct) of about $2 a share for 1938.

How does it happen that two similar amounts can produce such contrasting results in terms of the same issue? Leverage, of course. But how does it actually work out?

Disregarding for a moment the company's funded debt, charges on which have been deducted before net income is stated, consider the stock issues outstanding. First claim on earnings is held by the 282,303 shares of 6 per cent cumulative prior preferred stock; until profits exceed $1,693,818, or $6 a share on this issue, nothing is available for the lower ranking equities. Next comes the 6 per cent cumulative preferred, an old issue of which only 119,548 shares remain outstanding. Dividend charges on this amount to $717,288 annually. Thus, before a penny accrues to the common stock some $2,410,000 in net income after all charges must have been shown.

If the company were to report its income at zero for any year, with neither a profit nor a loss, the 5,593,189 shares of common stock would be in the red to the extent of 43 cents a share because of the dividend charges preceding its own claim. This is true regardless of whether any dividends are paid on the preferred stocks or not. The company's current asset position may improve sharply during a period when losses are being reported on the common stock, but the losses are nevertheless real. The year of zero earnings, furthermore, while it would mean an exactly even break for the prior preferred stock—neither a profit nor a loss—would mean a deficit of $2.36 per share on the other preferred issue. Apparently the loss on the old preferred would be greater than on the common; but actually the difference in amounts outstanding would be responsible.

Now if in the following year Republic could produce net earnings of say $3,000,000, all preferred dividends would be covered and a small balance (11c a share) would remain for the common. Doubling that income in the next year would increase earnings on the common 500 per cent or to 64c; tripling it would mean a gain of almost 1,000 per cent on the common, or to $1.16. Meanwhile, results stated in terms of the prior preferred stock would merely double or triple in pace with the gain in net, whereas the coverage for the junior preferred issue would jump 460 per cent through a tripling of net income. So results multiply with leverage.

The reverse side of the leverage proposition is what must be faced today, however, at least in summing up the results of the past year. Like all steel companies, Republic has been through a very sharp contraction in volume, and again like practically all in its industry,

Casting a heat into pigs at Republic's Canton, Ohio, plant.

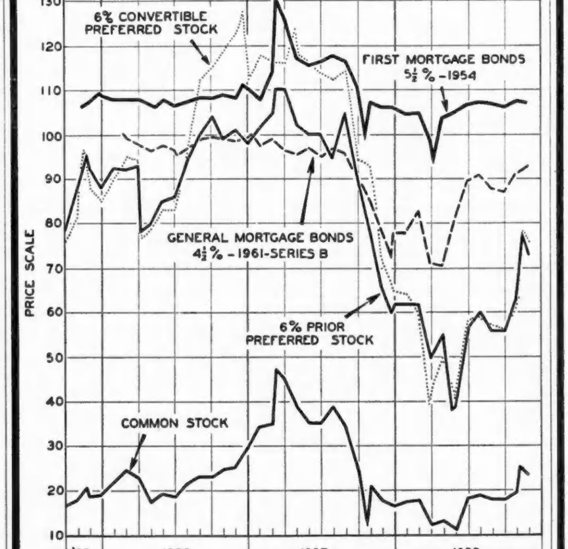
heavy charges which go on even when furnaces are idle have caused a far larger drop in earnings than in gross business. After only three profitable years—1935 to 1937—Republic has returned to the deficits which have plagued it since its formation early in 1930. The history of the corporation is preponderantly one of red figures, the score six red to three black by years.

Looking at the chart showing market action of various stock and bond issues, the picture emerges of the effect of rising and falling income upon the securities geared at different ratios to the earning power. The uppermost line on the chart, steadiest of all, represents the monthly price of the first mortgage 5½s due 1954, convertible into common stock at $38.04 per share. After selling for over a year within a narrow range, the conversion feature suddenly came into importance early in 1937 when the common stock threatened to reach and finally crossed the 38 level. The sharp runup in the issue subsided abruptly when the common stock fell away from its highs, but the first lien on assets of the Corrigan, McKinney subsidiary and on certain other assets helped to sustain the price of the bonds once they had dropped back from their temporary peak. Thus, except for a short excursion into the lower nineties, the convertible 5½s of 1954 have resisted the influence of curtailed earnings very sturdily.

Contrasting is the record of the general mortgage 4½s of 1961, unaided by a conversion privilege and not so directly secured as to principal. When it became apparent that interest charges would not be earned early this year, the 4½s dropped into the lower seventies, and have not since recovered to the levels prevailing in 1936 and 1937.

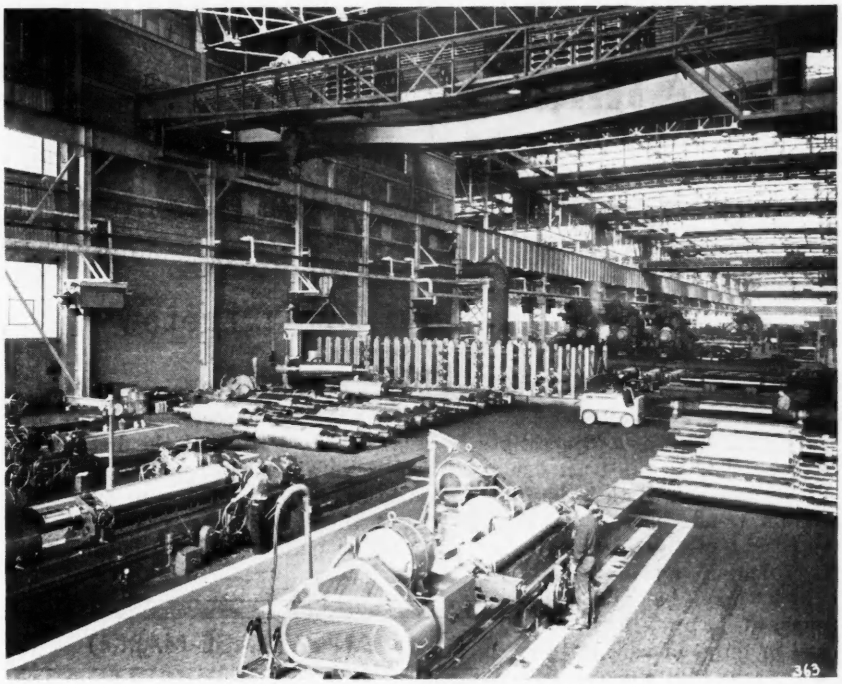
All of the bond issues, however, totaling a round $93,000,000, have priority over the two preferred stocks, and here the leverage becomes more noticeable. While the prior preferred rose only to 110, the junior issue climbed noticeably higher because of accumulated dividends which would necessarily be cleared before any payments could be made on the common. Then when it developed that interest charges were not being fully covered, and therefore that deficits were being incurred on the preferred stocks, these issues dropped in company to levels within a point or so of each other. (Neither line is adjusted for dividend payments, occasionally large on account of arrears.)

Finally, the action of the common stock, highest-geared of all the issues, is shown at the bottom of the chart. Selling at a fraction of the other prices, the true percentage size of the movements in the common are not immediately apparent. In the decline from the first quarter of 1937 to the second quarter of 1938 the first mortgage bonds dropped 28 per cent, the general mortgage bonds 30 per cent, the prior preferred stock 65 per cent, the old preferred 68 per cent, and the common 85 per cent! On the subsequent rise to the highs for 1938, the recovery of the various issues in the same order has been: 20 per cent, 36 per cent, 104 per cent, 96 per cent, and 128 per cent, with the common showing over six times the relative gain of the convertible bonds. Once the common works high enough to affect the value of the conversion privilege on the bonds, the two issues should tend to move more closely together, although percentages would still favor the common over the entire swing from the low points.



Having seen the effect of both rising and falling earnings on the various stock and bond issues, the next pertinent question involves a look into the future. Now that profits have disappeared but business has once more turned up, how soon can Republic be expected to get out of the red?

Some idea as to the swings possible in this business may be gained by comparing the first quarters of 1937 and 1938. In the earlier period a profit of $5,567,000 was shown, the largest in the company's history. A year later, the loss for the quarter was $3,062,000. Then the deficits tapered off very gradually in the second and third quarters of 1938, but not until the final three months was the breakeven point neared. On the basis of operating rates which have compared favorably with the industry as a whole, Republic may have added only very nominally to the nine months' loss of $8,306,000 when results for all of 1938 became known, always providing that no unusual income adjustments prove necessary at the year-end. Thus the estimate of a loss approaching $9,000,000 made at the beginning of this discussion may turn out to have been somewhat on the pessimistic side if all goes well in the closing days of the year.



General view of the cold mill building in Cleveland.

With Republic very near the turn in the corner toward profitable operations, the gains from this point could conceivably be rapid. Following a loss of $3,500,000 in 1934, the next year saw a profit of $4,500,000 and this was more than doubled in 1936. The position has deteriorated in some ways since then, it is true. Hourly wage rates were raised in both 1936 and 1937, and prices have been subject to considerable irregularity with effects which will probably not be erased in the near future. Taxes, another baneful influence, were 35 per cent higher in 1937 than in 1936.

On the other hand, toward the end of the three years of progress certain very important improvements to the property and enlargements of its scope were coming to pass. Gulf States Steel was acquired in April, 1937, providing not only an addition to manufacturing capacity and raw material supplies, but, perhaps more vital, an entrance to markets in the South with growing significance. Particularly since the revision of basing point differentials, making it difficult for Pittsburgh steel products to compete in widely scattered markets, the ore, coal, limestone and plants in the South which are now a part of Republic's assets may be expected to intensify the results of a boom in steel consumption once the pay-point is passed.

Another factor of no little significance is contained in the new equipment installed in the last year or two. A strip sheet mill at Cleveland, completed in November, 1937, just too late to be put to profitable use, set a new record for width and potential efficiency. Needless to say, only at a comparatively high rate of operations would tremendous investments in such equipment prove their worth. As business returns more nearly to normal, though, the campaign of modernization and the new equipment installed are seen to have opened the possibility, if not the probability, that the damage to profits caused by higher wages and taxes and lower prices may be in large part canceled by more efficient operating results. Furthermore, Republic has improved its raw material position by certain acquisitions which do not benefit earnings immediately but which must inevitably have their effect. The pay-point today is probably somewhat under 50 per cent.

A certain amount of dilution has occurred in the common stock, as for instance in the acquisition of Gulf States Steel on an exchange basis. However, the net result in terms of funded debt has been a reduction, since against an additional $7,000,000 Gulf States bonds assumed, over $22,500,000 of the company's own first mortgage 5½s and of its Series A 4½s were converted into common stock when that issue was at higher levels. Combining these transactions with sinking fund purchases and redemptions, the net reduction in funded debt during 1937 amounted to slightly over $18,100,000. Interest charges are somewhat further reduced and capital structure simplified by the call for redemption at the end of 1938 of the remaining Series A convertible 4½s.

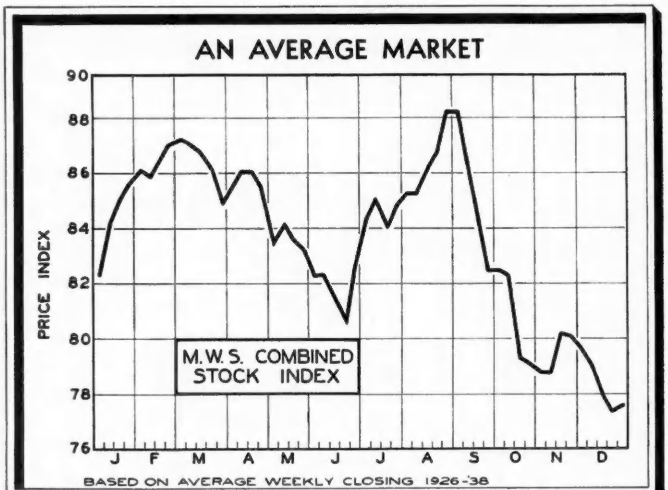
A pickup in net income during 1939 comparable to that of 1936 or the year before would be distributed among a larger number of shares of common stock, but increased capacity and efficiency have undoubtedly expanded the limits to which a move of the sort might be expected to carry. Republic has more than maintained its characteristic diversification of both products and plant locale, and it remains (*Please turn to page* 340)

Almanac of Seasonal Activity

Based on Observations and Averages, 1926-1938

BY T. L. LUDLOW

No such thing as a "typical year" actually exists, but it is possible to construct one which can serve a very useful function. Both in business and in security prices certain trends have a tendency to repeat themselves so consistently each year that a fairly reliable pattern is formed, against which may be laid current happenings and in terms of which the nearby future may be evaluated. The chart on this page is the result of averaging THE MAGAZINE OF WALL STREET 330-Stock Index from 1926 to 1938, week by week, arriving at a composite of the action in each week, with thirteen years compressed into one.



The picture obtained cannot of course be taken literally as a guide to any one year, but as a mathematical truth, the surprising seasonal variation must have its practical use to either the trader or the longer-term investor. Because the effect of the method used is to compare the fifty-second week averaged over thirteen years with the first week *in the same years*, a distortion occurs when the end of the chart is related to its beginning. The average rise in the market in the first week of twelve consecutive years is actually and exactly 2.3 points. Any adjustment made on the chart would be at the expense of its continuity.

Going a step beyond stock prices, the same method but on a monthly rather than a weekly basis has been applied to industrial trends. The facts brought out by the analysis are presented in the Almanac below and in the smaller charts opposite. Where figures cover less than thirteen years or where a change in an industry has occurred, such as the change in the automobile model year, a shorter period of experience is used, but in general the conclusions are for the two business and market cycles between 1926 and 1938. Certain figures in both stock prices and industrial trends late in 1938 have been estimated.

A Typical Year

JANUARY

Stocks advance (11 yrs. out of 13). Particularly in the first week—the average gain is over two points in MWS 330-stock Index.

The low month in freight car loadings; the next five months show continuous gains. Rail stocks are nevertheless customarily strong in January.

Bituminous coal production hits one of its two annual peaks; paper mills are busy; steel and building stocks advance.

An active period in new corporate financing is to be expected, but not the top for the year.

Business men make their plans, and the degree of their confidence can often be seen in the stock market or in industrial activity early in the month.

FEBRUARY

The market usually extends its advance.

Annual reports begin to influence individual issues as they appear.

Newsprint production suffers a sharp dip to its low of the year.

Relatively heavy ordering of freight cars usual.

Automobile production slides off from the high rates of the previous ninety days.

Gasoline consumption hits a low for the year.

Bank clearings (outside New York City) sag between good months of January and March.

Season of improving prices, news and prospects comes nearer for the petroleum industry. Oils bought for trading purposes last Fall may be closed out on strength.

MARCH

After advancing to the end of February or early March, stocks are subject to a reaction in the latter part of the month.

Auto production begins a two-month pickup from the February level; gasoline consumption also recovers strongly.

Farm income improves considerably from the February low.

Railroads cut their freight car purchases in half.

Department store sales show the first signs of increase after the January-February slump.

Business pace accelerates.

APRIL

An indecisive but significant month in the stock market. In 11 out of past 13 years, prevailing trend between the end of March and the end of April has been extended for another two months; when stocks advance in April they are customarily higher still by the end of June, and vice versa.

Cotton mills reach their greatest activity.

Although steel mills come to their operating peak, steel stocks are no better than the general market.

Auto production is likewise at a peak, without concurring strength in the motor issues.

MAY

The peak in corporate financing, making hay before the hot summer sun wilts investors' initiative.

Stock prices have a tendency to sag during most of the month, but the average price change is small.

Department store sales are enough better than in April to register a minor high point.

Car loadings improve despite the fact that steel mills, which are responsible for a fifth of the loadings, have begun to contract their rate of operations.

JUNE

The final week in this month, or rather the twenty-sixth of the year, is apt to be a breath-taker. The market was up 5½ points in this week of 1928, 10 points in 1931, 5 points in 1933, 10½ points in 1938. Explanation—possibly anticipating the reinvestment demand from July 1st dividend and interest recipients, possibly the psychological feeling of the approaching mid-year milestone, similar to that at the year-end without the tax considerations.

The uptrend in farm income is accelerated, but cotton cloth activity touches its low for the year.

Bituminous coal production is still at a low ebb. Bank clearings are fairly large—business active.

JULY

The market struggles to maintain its uptrend, without adding appreciably to values after the first week.

Rail equipment purchases in this and the following month threaten the zero mark.

Retail business stagnates, with department store sales making their low for the year.

Car loadings fall back in the only exception to what would otherwise be a straight uptrend from January to October.

AUGUST

The dullest month of the year in general business, yet in the last week the stock market makes its high for the average year, discounting the fall pickup. Hopes are likely to be pitched too high, as shown by subsequent market action.

New stock and bond issues are infrequent (the low for the year), with potential buyers away from their offices.

Agricultural products aid car loadings to rise; and new summer uses for electricity are of some help to power production.

SEPTEMBER

Earlier optimism towards autumn business receives a severe test and the market outcome is apt to be unpalatable. Drops between the last week in August and the last in September amounted to 7 points in 1929, 13 points in 1930, 14 in the next year, 15 in 1933, 25 in 1937, and 9 in the recovery atmosphere of 1938.

Automobile production is at its low for the year; gasoline consumption begins its trend down from the August peak.

Retail business stages a strong comeback from summer dullness.

OCTOBER

A time of wide swings in the stock market. Out of the past thirteen Octobers, only a couple were placid, with the majority showing changes of from 5 to 28 points in either direction. In ten of those years the prevailing direction in September carried through October.

Many important indices register their annual highs in this month. Bank clearings, car loadings, bituminous coal and newsprint production are among them. From now until January railroad freight traffic declines.

The peak in farm income is particularly outstanding.

NOVEMBER

As the year grows old wide market swings show a tendency to continue, but over the span of thirteen years cancel themselves in the average.

Automobile production steps up sharply. Motor issues are in the limelight.

New financing practically equals the August low.

Weakness in the oil price structure is in the offing; gasoline consumption is in its third month of decline, with three more to come.

As the season of doubts over oil prices and inventories comes nearer, the group tends to drag behind the market. Trading commitments for a three-month swing are apt to be profitable.

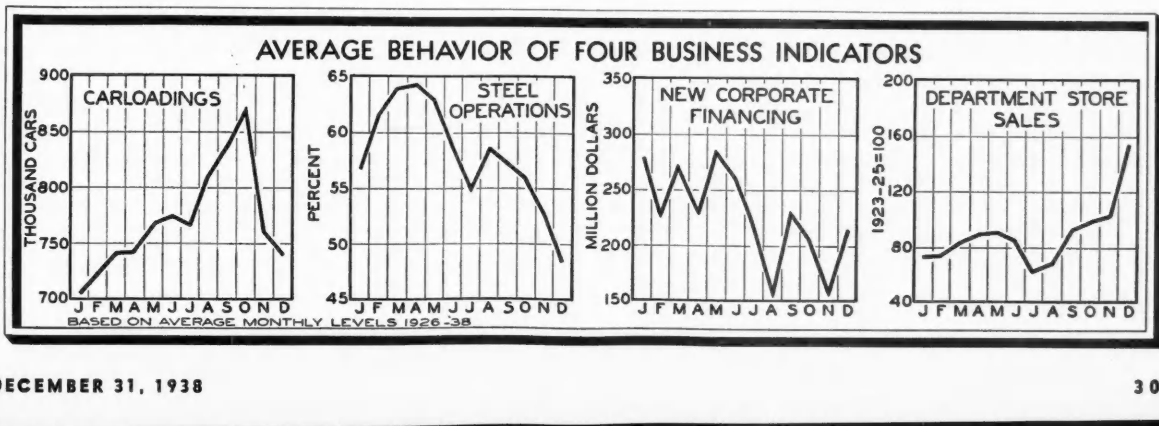
DECEMBER

The stock market hovers around its low for the year during the last three weeks of December. Tax selling and an air of suspended plans are in evidence. Movements are likely to be short and inconclusive.

Retail trade makes the most of its big opportunity, and even in a poor year sales expand in big seasonal burst.

Inventories in many lines are being worked down, not only to improve the cash position for year-end balance sheets, but also to simplify the task of stock-taking. Buying dries up; freight shipments drop; steel operations are at their lowest point of the year.

Nevertheless, bank clearings are good, and railroads place a relatively large number of orders for new equipment.



Foster Wheeler Turns the Corner

Large Earnings Appear in Prospect as Rearmament and Industrial Demand Broadens

BY C. L. WHITSON

EARLY in November a controversy broke out over naval boiler installations that made the first page of the newspapers. It had some bearing on Foster Wheeler, for, as one of the two principal designers and manufacturers of marine boilers, normally about half of their gross sales are steam plant equipment, the remainder being oil refining equipment and tubing.

The bone of contention in the Navy is high steam pressures and temperatures, and, although the argument has simmered down to a discussion, it is still going on. For a while admirals and captains were being shifted about to keep the peace.

Salient Factors Benefiting Foster Wheeler

- Marked rise in shipbuilding
- World rearmament
- Utility expansion
- Lower cost of materials
- General business improvement
- Higher backlog of orders
- Steady oil refining equipment demand
- Tendency to modernize power plants
- Defense duplication of utility plants
- Only three big companies in field

The Germans have been using steam pressures around 1,000 pounds, and although stationary or shore plants carry as high as 1,800 pounds, it is only in recent years that American shipbuilders have gone above 600. The advantage gained is greater cruising radius and a saving of space. Cruisers and destroyers operating under the higher pressures and temperatures have only been in commission a year or two and some of them have developed faults. Consequently a number of high naval officers question their ability to stand up, but there is no doubt that the trend is towards higher pressures. All three of the new battleships and the two building in Navy Yards are to have high pressure power plants.

Although Babcock & Wilcox also build boilers and auxiliaries of any description, Foster Wheeler has a slight edge in that they have stressed higher pressure design and developed economizers that are better adapted to the higher temperatures. Quite often Foster Wheeler economizers are specified on installations of other makes of boilers. Incidentally, no one dealing with the Navy has a monopoly through patents for the plans are sold as well as the product and the Navy could build the article itself. Foster Wheeler is the low bidder on at least one of the new battleship installations.

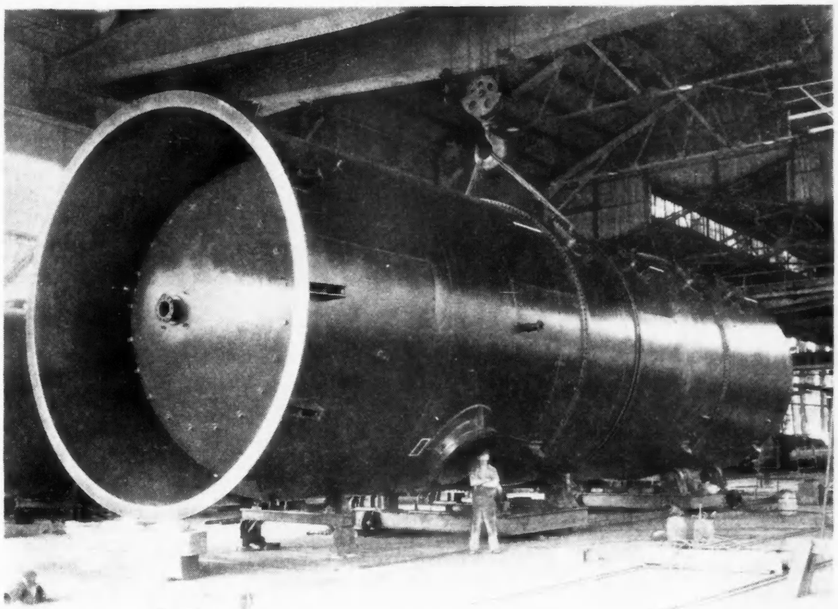
Naval business faces the 10 per cent profit limitation but there is also a sharp increase in mercantile shipbuilding. There are now, altogether, 162 vessels building or awarded, totaling 590,000 tons. Through Federal loans arranged by the Maritime Commission and Government subsidies shipbuilding has been given a powerful impetus and the Commission has announced a policy of building at least fifty ships a year for ten years in order to replace obsolete tonnage.

Besides being a beneficiary of rearmament through shipbuilding, Foster Wheeler can profit in another direction. The National Defence Power Committee announced in late October that the major utilities would begin a power duplication program as a defense measure, the original step consisting of an increase of 1,000,000 kilowatts and an initial outlay of $250,000,000. If a "war time" basis of power preparedness was reached one billion dollars would need to be spent. So far, no contracts have been let, the utilities preferring equity financing to R F C loans, and the utility market with T V A hearings in the headlines has hardly been propitious. Nevertheless, from industrial demand alone there is urgent need of utility expansion and sight must not be lost of that fact in considering a capital goods industry such as boilermaking. Stationary power plants are a substantial part of the business and industrial concerns are good customers but the greatest potential market is to the utilities.

Foster Wheeler is also an important manufacturer of oil refining equipment and its products are used all over the world. In 1935 oil refining equipment contributed $1,771,000 out of total sales of $5,914,000 and it has held up better than other lines all through the depression.

One of the reasons for greater stability is that depreciation is more rapid than is the case with power plant installations. The company also manufactures copper and brass tubing and pipes.

Because its customers are usually large companies with high financial ratings the risk of losses on either receivables or inventories is very small. On the other hand, rising labor costs on longer term contracts have sometimes played havoc with engineer's costs estimates but this has been corrected by clauses which allow the purchaser to carry part of the risk of rising wage scales.



Assembling a huge cracking tower for refining crude oil in the Foster Wheeler plant.

Foreign sales constitute an important part of the company's gross business, plants being maintained in Canada, England, and France. None of these countries have exchange restrictions but currencies fluctuate and occasional losses are incurred, though it may happen the other way around. It is well to remember that the French and British rearmament plans are far more ambitious than our own and that the company is in a position to benefit from world-wide rearmament. In the past, the bulk of the business has been in the United States.

The Carteret, N. J., works consists of a copper and brass tube mill, machine shops, research laboratories, etc., on 25 acres of ground with deep-water rights. The other plant is at Dansville, N. Y. Besides boilers, various auxiliaries are manufactured such as condensers, evaporators, economizers, superheaters, pumps, waste heat boilers, and feed water heaters. Petroleum refining equipment and a wide variety of collateral apparatus are also manufactured.

The markets and future prospects have been gone into rather thoroughly because a quick glance at earnings of the depression years may give a dour-looking picture that fails to show potentialities or even probabilities. Orders are booked well ahead. Heavy industries are often confusing in that by buying stocks when reports are excellent one frequently "gets the top," and that by buying them when the trend changes and earnings are still mediocre one is often in a position to reap the rewards of fortitude. When Foster Wheeler earns three or four dollars a share it is usually the time to think about selling, business cycles being what they are, and New Deal economic theories as to their check and flow notwithstanding.

As can be seen by reference to the accompanying table, Foster Wheeler lost money in every depression year save 1937. In that year net was $52,000 but before a loss of $153,000 on the sale of a Cleveland property. Gross sales almost doubled from 1935 to 1937 and in the latter year operations were at near capacity yet black ink barely prevailed. For the first six months of 1938, net was $77,214, equal to 7 cents on the common and unfilled orders as of June 30, climbed to $11,184,201 and have increased further since, signs that the trend has changed.

For one more view through dark colored glasses we might note that last year's profitless prosperity under near capacity operations also seriously cut working capital. Current assets to current liabilities were roughly 6½ to 1 in 1936 and only 3 to 1 in 1937. Among current liabilities are $1,400,000 of notes payable to banks, as of December 30, 1937, one reason for the percentage shift. Equity financing was projected in 1937 but withdrawn when the market dropped in September. Cash was $787,234 at the end of 1937 against $499,668 the year previous but there is little doubt that new capital would be welcome.

From such a record one might conclude that the stock was a sale rather than a purchase; but probability is that a common stock purchaser today is buying into the company at the beginning of a long sustained improvement.

The capital structure is very simple. There is no funded debt and only 16,728 shares of no par preferred ahead of 258,180 shares of (*Please turn to page 343*)

Comparative Statistics of Foster Wheeler

	Common High	Common Low	Gross Sales	Net	Unfilled Orders Dec. 31
1938	29⅝	11	....	$77,214f	$11,184,201f
1937	54½	11½	10,553,000	52,001	10,492,000
1936	45⅜	24⅛	8,838,000	353,348d	7,886,000
1935	30	9⅞	5,543,000	617,590d	6,073,400

f—6 mo. June 30, 1938. d—Deficit.

Happening in Washington

BY E. K. T.

Happy New Year for business in its relations with Government will be theme of most official utterances from Washington, giving impression that prosperity is in sight, that spirit of good will and cooperation is abroad in the land, that Government wants to help business. This will be true in a relative sense, true compared with recent years. The help business will get from Government will be largely in the form of a cessation of attack. The Administration has not gone conservative; it is just not so far to the left of center.

Third party of national importance in 1940 is highly improbable. Roosevelt is currently giving it no encouragement and its potential god-fathers realize election laws and practical politics work against it. Farmer-Labor and Wisconsin Progressive parties were almost ruined in last election. Farm groups and organized labor are growing apart instead of together. LaFollette's "National Progressives" is entirely a one-man outfit completely lacking in outside support. Liberals realize third party would mainly draw strength from Democrats, giving Republicans easy victory.

WASHINGTON SEES—

Third party and third term proposals dying out.

Conciliatory utility policy under attack.

Leftists fight to keep departments liberal.

Money tinkering losing favor.

Social insurance legislation to be cautious.

Foreign Loans and Credits Gain Favor.

Patent law revision in prospect.

T N E C interested in preserving competition.

Farm program revision under way behind scenes.

Third term prospect for Roosevelt declines as talk about it increases. There is excellent ground for believing Roosevelt is tiring of the man-killing White House job now that the glamour is gone and sledding is tougher, and that he will prefer to retire unless he is genuinely drafted and given an unmistakable mandate to continue the fight for liberalism as he sees it. But to say so publicly now would impair his influence, so he will maintain the possibility of a third term for its nuisance value.

Six-year term for Presidents, with no re-election, may be pushed as Constitutional amendment with tacit Administration approval as alternative to Congressional expression against third terms which would be a personal slap at Roosevelt.

Holding company policy of S E C is being criticized by radical inner New Deal circle which thinks utilities are being treated too considerately and death sentence law being nullified. Dominant factor in S E C is resisting this pressure. Several W P A power division officials are being shifted to S E C in hopes of counteracting alleged conservative trend and infusing public-ownership fervor.

S E C personnel changes may be a tip-off on attempts to head off conservative tendencies in administrative agencies. Former Representative Eicher of Iowa, appointed to S E C as reward for leading unsuccessful attempt at Iowa purge, has been stamped as a radical and may not be confirmed by Senate. Extreme New Dealers are believed to want a considerable shake-up in S E C, but the moderates are on guard against this. Situation in F C C is somewhat similar.

Monetary tinkering as a prosperity panacea has lost much favor in all important quarters. Silverites still seek their special favors, continuation of the President's dollar revaluation powers will be sought as a lever over foreign exchange, Townsendites advocate their inflationary pension scheme, and some voices are still raised for a commodity dollar, but there is little real interest in credit and currency manipulation to stimulate business activity.

T N E C continues to exhibit great (but still friendly)

differences of opinion among its members, and course of monopoly investigation is not yet predictable. Congressional members, however, seem somewhat impatient at apparent attempt of Department investigators to examine witnesses as in criminal proceedings, former being more interested in the general picture than details of corporation actions. Many seize every opportunity to insist they prefer more competition to the alternative of Government regulation. Next subjects up probably will be reduction of competition through purchase of competitors, and investment policies of insurance companies.

Wallace vs. Hull friction which has been growing for some time is coming out into open. Wallace damned with faint praise the British and Canadian trade agreements, forcing State Department to send speakers to farm belt to counteract antagonism. This is partly because Wallace is running for President and is jealous of Hull's popularity and success of his program contrasted with A A A failures; partly because Hull firmly opposes agricultural export subsidies, partly because Wallace interprets November elections as growing mid-west hostility to trade agreements program which may be a big 1940 issue.

Foreign loans and export credits are again in favor with Administration, but through or under supervision of Government agencies. But purpose is not so much to sustain high level of domestic business activity, as was true in the '20's, as for international political reasons —to show fight to the dictator nations and woo potential customers away from them more for future than immediate trade prospects. The China loan was deliberately designed to be an unmistakable gesture against Japan.

Mexican relations will be forced to a show-down when echoes of Lima conference have died away. State Department will demand compensation for oil and other investors on theory that continental solidarity and development of resources requires safety of investments, and that Mexico's actions are playing into hands of anti-democratic nations which have designs on this hemisphere. A stiffer policy of protecting United States investments will be made to appear a corollary of the good neighbor policy and will be indirectly aimed at other Latin American nations.

Japanese shipping investigation by Maritime Commission has international significance in that it is aimed to expose and stop, where possible, the aggressive and ruthless tactics of the Japanese in attempting to get more foreign business of all kinds, particularly in South American trade.

Wide World Photo

Rep. Eicher of Iowa, new appointee to S E C

State legislatures will be more important to business than Congress during next three months, since 44 meet in January and most agendas include bills for regulation of food and drugs, labor relations, working conditions, finance, merchandising, and many other phases of business, as well as taxation.

State wage-hour legislation is not expected to be adopted generally in spite of strenuous efforts of Department of Labor. States want to observe workings and constitutionality of Federal law, don't want to assume expense of policing their own wage-hour laws, and particularly they don't want to destroy any advantages their local industries may have in competing with interstate concerns by reason of being exempt from Federal law.

Chain store tax will not be passed. Chains are conducting intelligent campaign to enlist support of consumers, labor, co-operative farm marketers. Bill's author, Representative Patman, has been scheming to get on ways and means committee, but House leaders don't want him there and suspicion (whether justified or not) that he was tied up with McKesson & Robbins will be used against both him and his bill.

Anti-business views are still held by many of Roosevelt's close advisers who distrust business as much as business distrusts them. They are doing everything possible to keep F. D. R. and the New Deal on a left tack inwardly, whatever may be the public expressions of moderation. They are particularly working to get pronounced liberals in key policy posts, and to reorganize and shift duties in administrative agencies to crowd conservative outfits into the background. They particularly distrust so-called independent commissions, feeling that all quasi-legislative bodies should be under close executive control; this, of course, was object of reorganization bill, but this inner circle is going as far as possible without legislation.

Relief program revision probably will be dictated by House appropriation committee when first request is made for another lump sum. Party line-up on committee is expected to be 14 Republicans and 21 Democrats, which means that four dissatisfied Democrats will hold the balance of power and can require complete change in relief set-up and refuse to grant lump-sum funds. The House rarely upsets its appropriations committee, and, oddly, relief is one of the few subjects not assigned to some other committee for substantive legislation as the basis for appropriations, so this committee has complete power. But if the House doesn't revise relief, the Senate will. To the extent that the issue remains in politics, it will be Congressional politics rather than White House politics.

As the Trader Sees Today's Market

Bank Loan Barometer— Business-Market Ratio

BY FREDERICK K. DODGE

Every business depression intensifies the search for statistical methods by which the economic storm could have been forecast. The remarkably fast 1937-1938 depression tested many forecasting devices and found them wanting either in inherent value or human application—more often the latter. And it set students of market and business trends busily to work re-examining other indicators which might have worked to perfection—if properly interpreted.

There are scores of statistical relationships, guides and "gadgets" in use among traders and professional analysts of business and market prospects. The danger of accepting any one of these as "sure fire" under any and all conditions is probably as great as the danger of ignoring all. Many is the mechanical forecasting device which has functioned perfectly just long enough to build its cock-sure user up for a terrific let-down! None is a substitute for judgment, but some are very useful aids in formulating an intelligent opinion.

In these pages a fortnight ago we commented on the Blast Furnace Theory, once highly respected as a statistical barometer and very useful for a long period prior to the middle 'Twenties. Herewith we present the Bank Debits-Commercial Loan Ratio, which has the merit of having correctly forecast the 1920-1921 and the 1937-1938 depressions, and which had a logical relationship to the primary *economic* causes of those particular depressions. Briefly stated, the theory is as follows:

If production of goods importantly outruns consumption, an excess inventory problem is created which must be corrected by business depression or reaction. Commercial loans of reporting member banks are a rough—but sufficiently accurate—index of aggregate business inventories; and bank debits are the most complete index of the country's total spending activity. If commercial loans rise faster than bank debits, production is exceeding consumption and inventory over-expansion is reflected.

Debits to individual accounts, as regularly reported by the Federal Reserve Board, give a much more inclusive picture of total bank check transactions than do the weekly reports of check clearings. For instance, a payroll check drawn on Bank A and cashed at Bank A would not appear in check clearings, but does appear in bank debits.

The ratio of bank debits to commercial loans from 1919 to date is shown on the accompanying graph, as compared with the Federal Reserve Board index of industrial production. Both lines are adjusted for seasonal variation, and because of the erratic nature of monthly fluctuations in bank debits a three-months moving average is used for these figures. Moreover, debit statistics used are for 140 principal cities, exclusive of New York City, so that check transactions relating to security markets are largely eliminated.

As a matter of fact, this forecasting method worked better in late 1919 and again in 1937 than can be shown by our chart. Reserve Board commercial loan statistics were not published prior to December, 1919. Even so, the line showing ratio of debits to commercial loans can be seen to have declined sharply from the start of 1920 in advance of the business decline. There is enough available data to suggest that the storm signal would probably have been given a few weeks earlier had there been official figures upon which to base a three-months moving average of debits in ratio to loans. Again, the Reserve Board production index appears faulty in showing a top in December, 1936—probably due to inadequate allowance for change in the seasonal pattern of the motor industry following November introduction of new models—whereas the majority of other adjusted business indexes show the business top to have come in the summer of 1937. Certainly, the levelling off of the debits-loans ratio line and its sharp decline early in 1937 proved to have forecast serious business depression well in advance of the event.

It will be observed that in 1929 the debits-loans ratio line topped out after business activity had passed its crest. Obviously, therefore, it is not a statistical device by which any and every depression can be forecast. On the contrary, it appears to be useful only in relation to depressions in which excessive inventory expansion has been a primary cause of maladjustment. Human nature being what it is—and the lessons of the last preceding depression usually being remembered—the next depression probably will not have much relationship to the inventory factor. In no event can the ratio line be used as a short-term or intermediate trading device. Generally speaking, however, it might be reasoned that the business position is basically sound as long as the ratio

of bank debits to commercial loans rises in step with business activity—provided the financial factors are not vulnerable. The latter qualification must, obviously, be made. For instance, the debits-loans ratio was in fairly close step with business activity throughout the most speculative phase of the 1924-1929 bull market. The crack-up was mainly the explosion of a speculative credit bubble.

The Business-Market Ratio

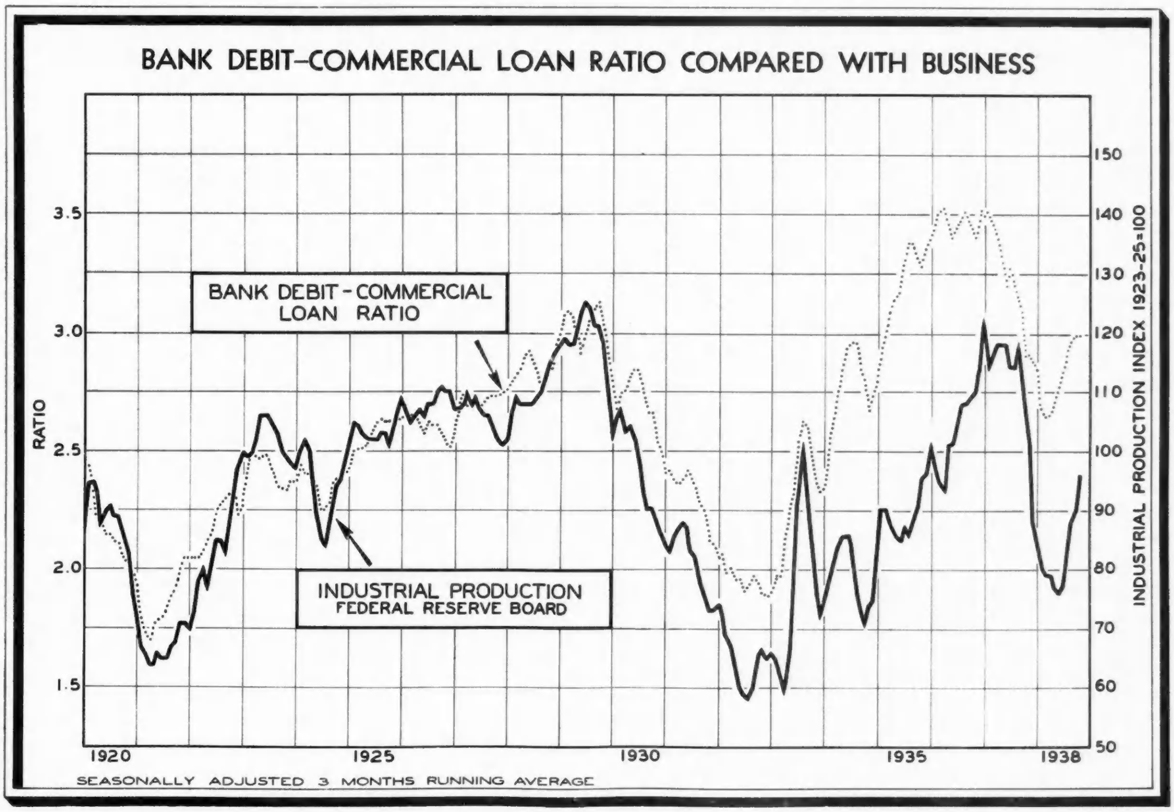
In the October 8 issue of THE MAGAZINE OF WALL STREET there was charted a market-business ratio which this publication devised and which attracted much interest. Without repeating this data at the present time, it may nevertheless be interesting to examine the relationship of the stock market to business activity from a somewhat different point of view and from a longer perspective. It need hardly be said that with our weekly index of 330 stocks back to the level of mid-July, as this is written, the market is lagging behind business at present—but what of the long term relationship?

For example, in the good business year 1926 the highest point reached by the Dow-Jones industrial average was 166.64, which was attained in August. The low for the same year was 135.20 and the mid-way point between high and low was, therefore, 141.44. During the first half of 1926 the average monthly closing high in the industrial average was 152.92 or very close to where the same index has been in recent trading, and during the second half of 1926 the average monthly high was 162.04 or only a bit above the highest point reached on the election rally in November. We are presented with a somewhat provocative question: to wit, are stocks *worth* about as much now as they were in 1926?

As measured by the Reserve Board index of production, business activity in 1926 averaged 108 per cent of the 1923-1925 level, the lowest monthly index being 105 and the highest 111. At present the comparable index probably stands just a point or two above 100, which was the official figure for November. If allowance be made for growth of population, however, we stand today at least 12 per cent under the average business level of 1926. In average current earning power of corporations we are now far under the 1926 level. In most capital goods industries, present volume and profits are acutely depressed, as compared with 1926. In new capital security flotations and other measures of the flow of private capital into productive long term investment, we are also far under 1926.

On the other side of the picture, interest rates, as reflected in low yield of highest grade long term bonds are around one-third lower than in 1926. Other things equal—which they seldom are—stocks in relation to prevailing interest rates should be worth one-third more than they were in 1926.

In the final analysis, however, the question of whether industrial stocks today are really worth about what they were in 1926 defies statistical answer. There are some important intangibles involved. While margin loans show less speculative activity than in the 'Twenties, it can hardly be doubted that investors and speculative-investors are more common-stock-minded today than they were in 1936 or perhaps (*Please turn to page 344*)



Is sterling headed for another slump, and if so, to what extent is the decline likely to go without affecting the dollar?

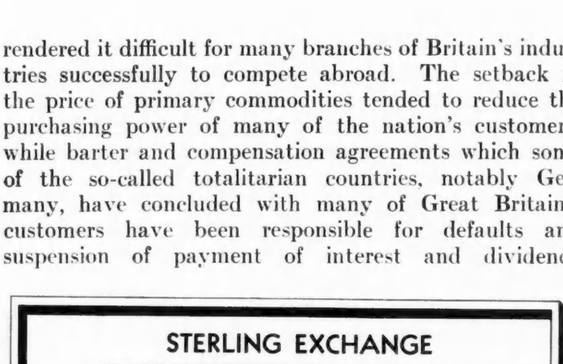
The Changing British Position

BY DR. MAX WINKLER

FROM a high of more than $5.03 to the pound early in 1938, exchange on London declined to a low for the year of $4.61, from which level it recovered to approximately $4.68, where it has remained reasonably stable. In view of the important role which the pound plays in the realm of international economics and finance and the profound effects of fluctuations in the value of the pound upon America's economic and financial structure, American business will watch with keen interest future movements of the pound and its relation to the American dollar.

What are the causes of the precipitous decline in the value of the pound in terms of American exchange? Has the Equalization Fund, established more than six years ago for the purpose of preventing wide fluctuations, ceased to function? Has the so-called Tripartite Agreement, an understanding arrived at by the three great democracies — the United States, Great Britain and France — designed to protect the respective currencies against both sharp setbacks and marked advances, proved of no avail when a real emergency occurred? Is the pound headed for another slump and, if so, to what extent is the decline likely to go without seriously affecting the U. S. dollar?

The answers to these questions are furnished by an analysis and interpretation of two categories of factors: economic and political. To begin with, the setback in the pound from the high level established early in the year is not very difficult to explain on the basis of available economic and financial considerations, as well as on the basis of international conditions: British exports, especially of manufactured products, have displayed a distinctly downward trend. The Sino-Japanese conflict has affected adversely British commerce with the Far East, notably China, where Great Britain's stake is very substantial, with the result that the income on the country's investments underwent a serious shrinkage. The recession in the United States which set in during the second half of 1937 has also tended appreciably to aggravate an already strained situation in Great Britain. Reduced overseas commerce found reflection in the decline in British shipping and a reduction in the income derived therefrom. Maintenance of relatively high wages rendered it difficult for many branches of Britain's industries successfully to compete abroad. The setback in the price of primary commodities tended to reduce the purchasing power of many of the nation's customers, while barter and compensation agreements which some of the so-called totalitarian countries, notably Germany, have concluded with many of Great Britain's customers have been responsible for defaults and suspension of payment of interest and dividends



Average Values of the Pound in Prior Years

1929	4.86	1933	4.24
1930	4.86	1934	5.04
1931	4.54	1935	4.90
1932	3.51	1936	4.97

on a considerable portion of British investments abroad.

One of the most plausible reasons for the decline in the pound was the over-valuation in terms of dollars, which made the so-called sterling countries unfavorable places for foreigners to buy in and favorable places in which to sell. Thus, the decline may in a way be regarded as corrective and it appears that even at a level of about $4.70, the pound still possesses certain disadvantages compared with the dollar. In other words, a further decline in the value of the pound could occur without rendering it necessary for the dollar to undergo any changes. While it may be difficult to state with mathematical precision what figure constitutes a more truly representative relation between the dollar and the pound, a figure lying somewhere between $4.55 and $4.75 may not seem unreasonable.

Much is heard about the huge federal debt of the United States and the great danger to the credit standing of the American nation. The English, who have far greater reason to be apprehensive over the credit standing of their nation, are far more phlegmatic than we are. At the beginning of October of this year, Great Britain's national indebtedness stood at £8,323,000,000, almost thirteen times the pre-war figure of £650,000,000. Neither the resources of the nation nor the income of the British people has increased proportionately. Commenting on these figures, one of Great Britain's leading financial institutions calls attention to the fact "that any further increase in national debt charges (for 1937-38 they are placed at £216,000,000 compared with £24,500,000 for 1913-14) can be borne only by a depression of the standard of living or by a reduction in new investments which, in the long run, have a similar effect," adding that "the process may not be fully visible at any given time because it may be offset by rising industrial efficiency, which increases productivity per unit of capital." It is not unlikely that the realization of so gigantic a debt without a corresponding increase in the nation's assets or income may be responsible for the sale of sterling and the employment of the proceeds in the acquisition of investments in the United States. According to reliable estimates, Great Britain's net stake in this country is in excess of one billion dollars. Parenthetically, the British investor apparently has more respect for and greater faith in the dollar than the American investor. The average British investor, as a rule, is a better judge and chooses his investments with more care and intelligence than the average American investor.

The transfer of foreign owned funds out of sterling into dollars assumed especially large proportions during the recent crisis incident upon the threat of war over the Sudeten part of Czechoslovakia. While a very small number of British statesmen and financiers may not have expected the actual outbreak of hostilities over the German-Czechoslovak controversy, the bulk of the English people and, one may assume, people elsewhere as well, believed war was imminent. Sterling and sterling securities were offered rather freely and proceeds changed into dollars. The decline might have gone further had it not been for the active intervention by the so-called Exchange Equalization Fund, which is estimated to have lost during the period April-September a total of £180,-000,000 gold. It will be recalled that the Fund, which still possesses assets of well over half a billion pounds,

Nesmith

The famous "Big Ben," London, England.

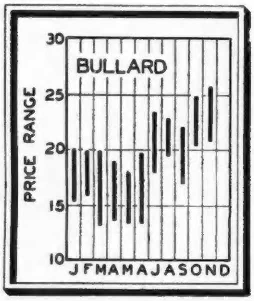
can intervene directly in the foreign exchange market, that is through the purchase and sale of exchange, or it may act indirectly through the intermediary of the gold market. It is only during relatively abnormal periods that the direct method is employed. Under ordinary circumstances, the free offer of dollars in the foreign exchange market would in all likelihood create an unfavorable impression for the pound.

To what extent the Tripartite Agreement has played a part in attempting to arrest the downward trend of the pound is not known, although it is reasonable to assume that the two nations who are signatories to the Pact would not have allowed the rate to descend so sharply if they had not recognized that the previous rate constituted an over-valuation of the pound. The Agreement, vague though its provisions may be, apparently is still functioning and it is more than likely that more active intervention will occur as soon as the authorities of both countries will alter their views.

In certain quarters it has been intimated that the recently concluded Anglo-American Trade Treaty contains provisions concerning the relation between the pound and the dollar and an eventual stabilization of the two exchanges. It is safe to assert that all the details contained in the Pact have been made public. There are no currency provisions of any kind outside of whatever steps may be contemplated under certain conditions under the terms of the Tripartite Agreement. The trade treaty has been hailed as one of the most constructive steps taken by the two governments in recent years. From the point of view of prac- (*Please turn to page* 344)

Six Stocks for First Quarter Profits

SELECTED BY THE MAGAZINE OF WALL STREET STAFF



Bullard Company

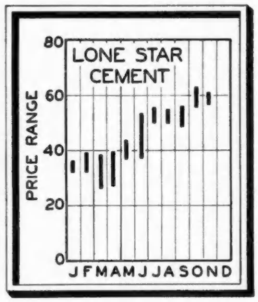
Bullard Company is ranked as one of the foremost manufacturers of automatic machine tools and vertical turret lathes. The company has been credited with developing some of the most efficient machine tools used by automobile manufacturers, aircraft builders, railroads and railroad equipment manufacturers.

New plant construction, rearmament and national defense plans foreshadow a substantially increased demand for machine tools. It has been estimated that the percentage of obsolescent machine tools in government arsenals exceeds 65 per cent. Most of the leading tool manufacturers have for some months been booking large foreign orders for new equipment, of which undoubtedly much is being used in the manufacture of armaments. This foreign business has rendered timely aid to the industry in enabling it to offset the deficiency in domestic orders. Potentially, not only does the machine tool industry stand to receive an increasing volume of rearmament orders, but industrial orders should likewise increase proportionately with a gain in general business. The percentage of obsolescence in industrial equipment is nearly as great as that in arsenals, etc. Domestic machine tool business has recently shown encouraging improvement and domestic bookings in November were the largest for any month in 1938.

In 1937 Bullard reported a net profit of $879,118, compared with $691,701 in 1936 and about $294,000 in 1935. After payment of a surtax of $49,630 on undistributed profits, earnings applicable to the 276,000 shares of capital stock, which comprise the entire capitalization, were equal to $3.19 per share in 1937. Net in 1936 was equal to $2.50 a share. In the first six months of the current year, the company reported net profits of $101,217, equal to 36 cents per share, and comparing with $466,870 or $1.69 a share in the corresponding months of 1937. Mainly responsible for the current decline in earnings was the dearth of domestic orders. The company's balance sheet at the end of 1937 revealed a comfortable financial position. Current assets, including $311,523 cash, amounted to $1,685,889 and current liabilities were $259,168. Net working capital was $1,426,721.

Last March the company paid a dividend of 25 cents a share but no further declarations have since been made.

Recently quoted around 25, the company's shares show nearly one hundred per cent recovery from their 1938 low of 13¼. The shares, however, are still substantially under the 1937 high of 45¼ and if the anticipated improvement in sales and earnings materializes over the next six months, the shares would be in line for further appreciation in value. This prospect appears to be sufficiently assured to lend a good measure of speculative attraction to the issue.



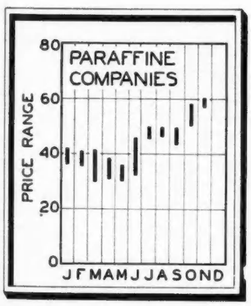
Lone Star Cement Corp.

Lone Star Cement is the largest independent unit in the cement industry, having an annual capacity of approximately 24,000,000 barrels. Notwithstanding the fact that the cement industry has frequently suffered from excessive productive capacity and competitive problems arising from heavy shipments of foreign cement sold at lower prices along the Atlantic seaboard, Lone Star's record has been decidedly better than that shown by the industry as a whole. The company's achievement in this respect reflects, in a large measure, such fundamental factors as a well entrenched competitive position and low production costs. Because cement is cheap and heavy, the cost of transporting it from mill to consumer is a matter of major importance. Possibly no other product of general use at the delivered price represents as much freight as in the case of cement. For this reason a successful manufacturer must operate as many plants as possible, and place them as close to large consuming territories as the source of raw materials will permit and in this way save as much freight as possible. The broad geographical diversification of Lone Star's plants gives the company a major competitive advantage and has mitigated the effects of sectional adversities. In addition to domestic plants, the company also has plants in Cuba, Argentina, Uruguay and Brazil. Foreign plants have been particularly profitable.

Capitalization of Lone Star Cement consists solely of 962,228 shares of capital stock. The strong financial position is a characteristic feature and at the end of 1937 current assets of $11,100,000, of which $4,600,000 was in the form of cash, compared with current liabilities of only $1,800,000.

While roads, bridges, tunnels, dams and other public projects account for an important portion of cement consumption, the industry, nevertheless, remains closely geared to activity in private business and, of course, more especially to activity in private construction. Steady improvement in the company's profits was registered between 1932 and 1937. In the latter year, net profit of $4,079,825 was equivalent to $4.17 a share for the capital stock, and in 1936 net was equal to $2.99 a share. This year, although earnings have declined, the company's showing has been much better than might otherwise have been expected in the face of the severe slump experienced by general business in the first six months. For the nine months ended September 30, last, Lone Star reported net profit of $2,328,956, equal to $2.42 a share, comparing with $3,130,627 or $3.24 a share in the same period a year ago. In the full 1938 year, earnings will probably be in the neighborhood of $3.50 a share. Dividends have been paid at the rate of 75 cents a share quarterly.

With the company virtually assured of further expansion in the consumption of cement, in conformance with the rising tide of building and construction activity in 1939, the shares invite favorable consideration both for income and price appreciation. Recent levels around 59 compared with a current high of 63¼ and a 1937 high of 75¼.



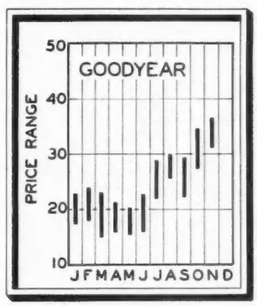
Paraffine Companies

Included among the broadly diversified products manufactured by the Paraffine Companies, Inc., are floor coverings such as linoleum, felt base rugs and "Mastipave" tile, building materials, such as roofings, insulation materials and paints, paper products, including boxboards, cartons and shipping containers and an extensive assortment of glass products, such as bottles, etc. These products are distributed on a national scale, but the larger portion of the company's sales are made on the Pacific Coast.

The nature of the company's activities is such that sales from year to year tend to respond to the general level of industrial activity and to building and construction. However, the company, favored by a modest capitalization, has an unusually good record of earnings to its credit. Even in 1932, when general business was at an extremely low ebb, Paraffine Companies was able to show a profit, net in that year of $406,694 having been equal to 85 cents a share on 476,031 shares of common stock then outstanding. The following year, 1933, profits were off slightly to 83 cents a share, but in 1934 a substantial gain was shown and net of $2,018,120 was equal to $4.24 a share. Again in 1935 net declined and per-share earnings in that year amounted to $3.10. In the fiscal year ended June 30, 1936, net income of $2,173,675 was equal to $4.57 per share, followed by net of $2,608,-395 or $5.28 a share for the common stock after preferred dividends in the 1937 fiscal period. Reflecting the sharp recession in general business in the last half of 1937 and the first six months of the current year, net income for the fiscal year ended June 30, last, of $1,255,000 was equal to $2.44 a share for the common stock.

Ahead of the company's 476,062 shares of common stock are only 23,804 shares of 4 per cent preferred stock. The preferred shares are convertible into common, share for share. As of June 30, last, financial position was secure, current assets, including nearly $400,000 cash, amounting to $7,254,023, while current liabilities, including $400,000 bank notes payable, were $1,067,451. During the current year the company has paid quarterly dividends of 50 cents a share on the common stock, while 1937 payments were at the rate of $1 per share quarterly.

Although the company has issued no recent reports, it is a reasonably safe assumption that sales and earnings have responded to the rising level of industrial activity over the past six months. Moreover, the marked spurt in residential construction has doubtless reacted in the company's favor. Given the benefit of further sustained improvement, it is entirely conceivable that the company's earnings in the current fiscal year may exceed $4 a share for the common stock. On this basis, the shares would appear to represent reasonably sound investment values at recent levels around 58-60.



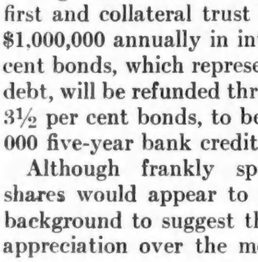
Goodyear Tire & Rubber Co.

Goodyear Tire & Rubber Co. is the world's largest manufacturer of rubber products and in addition to tires and tubes products include rubber footwear and a widely diversified line of mechanical rubber goods. Activities are well integrated. A subsidiary, Goodyear Rubber Plantations, controls substantial acreage of rubber land in Sumatra and the Philippines. Other subsidiaries are engaged in cotton growing and the manufacture of tire fabrics. About 75 per cent of the company's normal business volume is contributed by tires and tubes, of which about 40 per cent is sold to automobile manufacturers for original equipment.

The company's past record has displayed the volatility characteristic of the rubber industry, reflecting chiefly the wide fluctuations in price of the principal raw material—crude rubber. In 1937, for example, notwithstanding the fact that sales increased about $30,000,000, profits dropped about $3,600,000 to $7,257,287, or the equivalent of $1.94 a share on the 2,059,061 shares of common stock. In the previous year, earnings were equal to $3.68 a share on the common. In 1937, however, the company was forced to write off $10,342,743 to adjust the value of its inventories to the severe slump in the price of crude rubber.

In the first six months of the current year, the company reported net income of $1,669,828, comparing with $8,068,352 in the corresponding months a year ago. These comparative results were equal to 2 cents and $3.18 per share for the common stock, respectively. Results in the final six months, however, should register significant improvement and at the present time prospects for the rubber industry as a whole shape up in a very promising fashion. Crude rubber prices have recovered to a point where large inventory write-offs in 1938 will not be necessary; demand for tires has expanded considerably, aided both by increased replacement sales and substantially larger takings by the automobile industry; tire prices have been advanced on the average of 5 per cent, and with Goodyear heavily supplied with low cost inventories, higher prices should find substantial reflection in net income. It is also noteworthy that the company, with the recent completion of arrangements for the refunding of $52,365,500 5 per cent first and collateral trust bonds, will save approximately $1,000,000 annually in interest requirements. The 5 per cent bonds, which represent the company's entire funded debt, will be refunded through the medium of $40,000,000 3½ per cent bonds, to be sold privately, and a $10,000,-000 five-year bank credit at about 2¼ per cent.

Although frankly speculative, Goodyear common shares would appear to possess a sufficiently favorable background to suggest the possibility of profitable price appreciation over the months ahead.

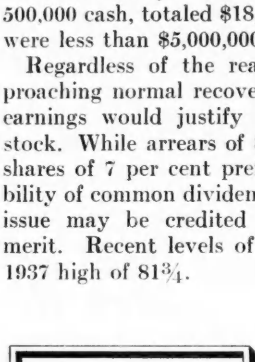


Crucible Steel Co. of America

The national defense program on which the United States is about to embark promises to be of major industrial significance. Among companies having an important stake in rearmament and defense the nature of Crucible Steel's activities is such that it may well be one of the leading large-scale participants. Crucible Steel is one of the foremost manufacturers of alloys and specialty steels, of which a considerable portion is utilized in the manufacture of high-speed machine tools. According to trade estimates, the percentage of obsolescence in machine tools in government arsenals exceeds 65 per cent. In addition, Crucible Steel manufactures projectiles, gun forgings, as well as steel for propellers, turbines, shafts and deck plates, torpedo and gyroscope tubes, rifle bores, etc. Different types of the company's specialty steels are utilized in the manufacture of aircraft engines, structural parts and landing gears. Note only has the company supplied these various products to the U. S. Government, but, according to recent reports, has booked several sizable orders from the French and British governments.

In 1937, Crucible Steel's gross sales increased $10,000,-000 to $59,679,895 and net income, after a tax of $241,247 on undistributed profits, totaled $4,017,931, or the equivalent, after allowance for annual dividends on 238,000 shares of 7 per cent preferred stock, to $5.21 per share on 450,000 shares of common stock. Net in 1936 was equal to $3.10 a share on the common stock. The severe slump in general business, and in the steel industry particularly, in the first six months of this year was responsible for the sharp decline in the company's earnings. In this most recent period, the company reported a loss of $1,540,360, as compared with a profit of $3,099,-797 in the first half of 1937. Since that time, however, the company's business has picked up encouragingly and in November it was reported that the company's operations were running ahead of those for the steel industry as a whole. Financial position at the end of last June was satisfactory. Current assets, including nearly $2,-500,000 cash, totaled $18,610,147, while current liabilities were less than $5,000,000.

Regardless of the rearmament factor, anything approaching normal recovery in Crucible Steel's sales and earnings would justify higher levels for the common stock. While arrears of $30.25 per share on the 238,800 shares of 7 per cent preferred stock preclude the possibility of common dividends in the near future, the junior issue may be credited with well defined speculative merit. Recent levels of around 39 compared with the 1937 high of 81¾.



Commercial Investment Trust

Commercial Investment Trust is the largest organization engaged in the financing of an extensive variety of installment purchases. At the end of 1937, of the total receivables held by the company, 58 per cent consisted of retail automobile liens, 10 per cent wholesale automobile liens, 8 per cent textile factory and 24 per cent industrial liens. These percentages represent approximately the relative importance of various phases of the company's activities. In 1936 Commercial Investment Trust acquired the National Surety Corp., engaged in underwriting fidelity and surety insurance. In addition to handling installment purchases of Ford automobiles, since its acquisition of Universal Credit Corp., other motor accounts include Nash, Studebaker and several truck companies. The company also finances the purchase of electric refrigerators and other types of household equipment. Recently it was announced that the company would acquire the remaining 40,000 common shares of Universal Credit Corp., which it does not now hold, in exchange for 200,000 shares of Commercial Investment Trust common stock, $1,500,000 cash and option of purchase an additional 50,000 shares of common stock at $32 a share.

Capitalization as of June 30, last, included $33,000,000 3 per cent debentures of 1946, $35,000,000 3½ per cent debentures of 1951, 95,441 shares of $4.25 preference stock and 3,314,554 shares of common stock. Total assets amounted to $421,167,703, the bulk of which consisted of installment receivables totaling $292,049,446.

Commercial Investment (*Please turn to page* 338)

The Investment Clinic

Revising Investment Holdings

Conducted by J. S. WILLIAMS

THIS department has received a letter from a reader in which he presents an investment problem of such timely interest that we feel justified in alloting sufficient space in order to discuss it in some detail. Similar questions have doubtless concerned other investors at this time of the year when revisions come in for more serious consideration, and in attempting to help this particular reader we are hopeful that others also will be enabled to rationalize their own problems. The letter follows:

. . . *I think you'll agree with me that taking the list as a whole it probably could be a lot worse. I don't believe any of the issues would be called "dogs." The question in my mind, however, is whether this is the best type of list to hold at this stage of the business cycle. I incline toward the opinion that business in 1939 will be much better. If it is I assume that stock prices also will go higher. My own business experience, as well as my investment experience, has shown me that while business may be good, it is never uniformly good so far as this applies to industries and specific companies. I should like therefore to place greater emphasis in my list on those companies which appear to have better than average prospects for 1939. I have some ideas of my own but I wonder if you would care to make any suggestions? I have been a reader of* THE MAGAZINE OF WALL STREET *for some time and a number of issues in my list were selected after reading your analyses. I might add that while I like issues which "pay off" income from dividends it is not strictly necessary. I have intentionally omitted the prices which I paid for my holdings as I would not want your ideas influenced by them. Also I might add that the large block of Radio came to me as part of a legacy about a year ago. . . .*

Accompanying this discussion is printed this reader's list as submitted to us.

We agree that his portfolio of securities, taken as a whole, indicates a considered selection of representative common stocks. Singularly, the list includes neither public utility or railroad stocks. Aside from the uncertainties, both political and operating, which dominate the outlook for these two major industries, it is presumed that our correspondent has a definite preference for industrial common stocks. It is also presumed that inasmuch as dividends are a secondary consideration (although it would appear that our reader recognizes that the ability of a company to pay dividends is something of a hallmark of quality), capital appreciation is the immediate objective.

Confirmed by our investor's own experience, it is true that business recovery from a prolonged period of depression is rarely uniform. The same also holds true of security prices, although in the latter instance it is likely to be more apparent in the secondary stages of a bull market. In the first stages in the reversal of the market from a downward to an upward trend, a considerable majority of common stocks will record sizable gains. After that the market is likely to become much more selective. Apparently well aware of this pattern, this reader foresightedly seeks to anticipate this selective period and revise his list in order to place greater emphasis on those companies which appear to have the most to gain from this point on.

Present List

Issue	Recent Price	Divs. Paid 1938	Tota Value	Annuel Income
100 shs. Reynolds Tobacco "B"	44	$2.90	$4,400	$290.00
100 shs. Paramount Pictures*	12½	.....	1,250	....
100 shs. Standard Brands*	6	0.62½	600	62.50
50 shs. St. Joseph Lead	44	1.00	2,200	50.00
50 shs. Caterpillar Tractor	46	2.00	2,300	100.00
60 shs. General Motors*	50	1.50	3,000	90.00
25 shs. du Pont	150	3.25	3,750	81.25
100 shs. General Cable	16	.....	1,600	....
40 shs. Cluett, Peabody*	22	0.85	880	34.00
80 shs. Woolworth	50	2.40	4,000	192.00
30 shs. Hazel-Atlas Glass*	107	5.00	3,210	150.00
100 shs. Socony-Vacuum*	13	0.50	1,300	50.00
50 shs. U. S. Rubber	50	.....	2,500	....
20 shs. Johns-Manville	105	0.50	2,100	10.00
100 shs. Industrial Rayon*	25	.....	2,500	....
60 shs. General Refractories*	36	.....	2,160	....
25 shs. Int'l Business Machine*	180	6.00(a)	4,500	150.00(a)
100 shs. General Foods	38	2.00	3,800	200.00
50 shs. R. H. Macy*	42	2.00	2,100	100.00
100 shs. General Electric	43	0.90	4,300	90.00
760 shs. Radio Corp.†	8	.....	6,080	....
Total			$58,530	$1,649.75

*—Issues to be replaced. (a)—Plus 5% in stock. †—Contingent sale recommended. See text.

Revised List

Issue	Recent Price	Divs. Paid 1938	Total Value	Annua Income
100 shs. Reynolds Tobacco "B"	44	$2.90	$4,400	$290.00
50 shs. St. Joseph Lead	44	1.00	2,200	50.00
50 shs. Caterpillar Tractor	46	2.00	2,300	100.00
50 shs. du Pont	150	3.25	7,500	162.50
100 shs. General Cable	16	.....	1,600	....
80 shs. Woolworth	50	2.40	4,000	192.00
50 shs. U. S. Rubber	50	.....	2,500	....
20 shs. Johns-Manville	105	0.50	2,100	10.00
100 shs. General Foods	38	2.00	3,800	200.00
100 shs. General Electric	43	0.90	4,300	90.00
300 shs. Radio Corp	8	.....	2,400	....
25 shs. Eastman Kodak (n)	181	6.00	4,525	150.00
50 shs. United Aircraft (n)	40	1.25	2,000	62.50
100 shs. Crucible Steel (n)	41	.....	4,100	....
100 shs. Foster Wheeler (n)	25	.....	2,500	....
100 shs. National Gypsum (n)	15	.....	1,500	....
50 shs. Holland Furnace (n)	47	2.00	2,350	100.00
45 shs. Inland Steel (n)	86	2.50	3,870	112.50
Total			$57,945	$1,519.50

(n)—New additions.

Such rotation of funds is in accordance with recognized investment principles. At the same time, it should be borne in mind that regardless of the care and reason employed in making a selection of companies likely to be substantially favored by developments three, six or nine months from now, events might conceivably intervene to adversely affect their prospect. Hence, revisions made on that basis at this time are essentially a speculative undertaking and subject to longer term risks. It is assumed, however, that any investor owning a preponderance of common stocks is thoroughly familiar with such risks.

Getting to our reader's list, the sale of ten issues and the contingent sale of a portion of another is recommended. Those issues which are to be eliminated entirely are indicated by an asterisk (*).

The sale of 100 shares each of Paramount Pictures and Standard Brands is indicated because frankly our examination of the affairs and prospects of these companies does not indicate that either issue is a desirable holding in a list in which the chief emphasis is given to capital appreciation. Difficulty in ironing out production problems and reducing costs have restricted Paramount's earnings, while Standard Brands has been compelled by competitive conditions to shave profit margins.

Primarily because our reader also holds 25 shares of duPont, we have marked his 60 shares of General Motors for sale. With duPont owning roughly one share of General Motors for each share of duPont common, in effect stockholders of the latter also have a sizable equity in General Motors. DuPont shares embody all of the dynamic features identified with the ever-growing chemical industry and the company's wide diversity of products, sold to both industry and direct consumers alike, together with the inherent possibilities in several new products developed in the company's research department, make the issue one of the prime common stock investments.

In furtherance of reader's desire to eliminate issues identified with industries which may be more or less static next year, we feel that the 40 shares of Cluett, Peabody, 30 shares of Hazel-Atlas Glass and 100 shares of Socony-Vacuum can be replaced to better advantage. Fundamentally, we have no particular fault to find with any of these companies. Earnings of Cluett, Peabody have shown some improvement recently; Hazel-Atlas Glass has a long record of profitable operations and liberal dividend payments but the company's prospects over the next year do not appear to promise substantial gains from the current level of profits; Socony-Vacuum shares, from a speculative standpoint, are handicapped by the large amount of stock outstanding.

While conceding that rayon manufacture is a growing industry, the 100 shares of Industrial Rayon have been marked for sale. This issue is not without merit, but our reader already has a stake in the rayon industry through his commitment in duPont. This will be further increased if he follows our later suggestion with respect to a portion of his Radio holdings. The same also holds true if the switch from International Business Machines to Eastman Kodak is made.

In suggesting a switch from International Business Machines to Eastman Kodak we are not overlooking the fact that International Business Machines common stock is an excellent investment. The company's conspicuous ability to show larger earnings during 1938 than in the previous year attests a remarkable stability of earning power. At the same time we are inclined toward the belief that Eastman Kodak shares, selling at about the same level as those of International Business Machines will show a greater percentage of price appreciation during the coming year. Both issues pay cash dividends of $6, while International Business Machines in 1937 also paid a 5 per cent stock dividend. Eastman Kodak, in addition to being the world's largest manufacturer of cameras and photographic supplies, is becoming an increasingly important factor in the chemical and rayon industries. Taking Eastman's several industrial fields as a whole, they would seem to offer greater possibilities for dynamic development than the more stable activities of International Business Machines.

The activities of General Refractories are directly related to those of the steel industry and demand for refractory materials may be expected to reflect rising steel production. The shares are not without speculative promise but we rather feel that the interests of our reader will be more profitably served by a direct commitment in the steel industry, particularly as he holds no steel issues at the present time.

While it is a safe assumption that the New York World's Fair will impart considerable impetus to retail

trade in New York City and R. H. Macy occupies a strongly entrenched competitive position in the New York territory, the company's profit margins have been adversely affected by increased costs and the difficulty of absorbing these costs in increased prices has resulted in cutting earnings despite larger sales in the last fiscal year. Some improvement is likely over the coming months but as a speculative proposition, such issues as United Aircraft or Crucible Steel would seem to offer greater promise.

Both in actual shares and dollar value the commitment in Radio Corp. is disproportionately large. Some allowance, however, must be made for the fact that this holding was a legacy. Aside from the possibility that market enthusiasm over the imminent possibility of television may carry the shares to higher levels, we look upon Radio as primarily a long term speculation. Not necessarily as a matter of diversification, but because our reader has nearly 10 per cent of his total investment capital tied up in an issue, the market possibilities of which over the coming months are at least open to debate, it would seem advisable to scale this commitment down to 300 shares. The proceeds from the sale of 460 shares could be used to purchase an additional 25 shares of duPont.

Of the issues left undisturbed, we have allowed some compromise to guide our choice. Such commitments as Reynolds Tobacco "B," Woolworth and General Foods could undoubtedly be replaced by issues embodying more volatile speculative factors. These issues, however, in addition to yielding a fairly generous dividend return might also be expected to record a fair percentage of price appreciation in step with any improvement in general business. Moreover, we feel that it would be unwise to remove *all* of the more stable type of common stocks from the list.

With prospects more hopeful for increasing demand for non-ferrous metals, coupled with the strong statistical position of lead, we are advocating retention of St. Joseph Lead. While any considerable improvement in private tractor sales may be deferred pending a reversal in the recent downward trend of farm purchasing power, Caterpillar Tractor, as the nation's largest manufacturer of diesel engines appears in line to benefit as a result of the proposed mechanization of the Army. On the speculative prospect of increased utility and industrial construction, General Cable appears to have interesting possibilities among low priced issues. Larger volume of utility construction and the huge shipbuilding program enhances the prospects for Foster Wheeler. General Electric would likewise be a substantial participant in any utility program, and also promises to benefit through building construction and rearmament activities. The sustained vigor displayed by building construction, particularly in the residential field, will inevitably redound to the benefit of Johns-Manville. The affairs of U. S. Rubber have improved to a point where the resumption of common dividends in the not distant future is a distinct possibility. This prospect is further supported by the steadily improving statistical position of not only crude rubber but finished rubber goods as well. Replacement demand is becoming more active and the automobile manufacturers appear likely to enlarge appreciably their current takings.

Of the issues suggested to replace those sold, it will be noted that two—National Gypsum and Holland Furnace—are closely identified with the building industry. The building prospect, as it shapes up at this advanced date, is one of the brightest factors in the outlook for 1939. Inland Steel, having to its credit an outstanding record of consistent profits notwithstanding the highly volatile nature of its activities, combines in its shares a strong industrial investment issue with well founded promise of speculative gains. With emphasis in the national defense program now unfolding placed strongly on the creation of a powerful air force, the shares of United Aircraft offer one of the best mediums for obtaining a stake in the aircraft industry. The company is not only one of the foremost manufacturers of planes but it is also one of the two leading manufacturers of aircraft engines, as well. Crucible Steel specializes in the manufacture of alloy steels and in addition manufactures projectiles, gun forgings, as well as steels for propellers, turbines, shafts, deck plates, torpedo and periscope tubes, rifle barrels, etc. All of which gives the company an important stake in rearmament.

The net result of the changes discussed in the foregoing paragraphs will reduce the number of issues in our reader's list by three. Based on 1938 dividend payments, income on the revised list would have been $130.25 less. We think that our reader will agree that this loss in income is relatively slight in a list designed primarily to produce capital gains. We feel also that with the changes which have been suggested, any loss in income will be more than compensated for by a greater percentage of price appreciation over the coming months.

Preferred Stocks for Income

Issue	Recent Price	Call Price	Yield %
Bethlehem Steel $1	18	20	5.5
Firestone Tire & Rubber 6%	98	105	6.1
Food Machinery 4½%	106	107½	4.2
Radio Corp. 3½%	64	100	5.4
Skelly Oil 6%	96	103	6.2
Consolidated Edison 5%	102	105	4.9
Armour & Co. Del. 7%	103	110	6.8
American Bank Note 3%	58	NC	5.1
Colgate-Palmolive-Peet 6%	103	102½	5.8
Tide-Water Assoc. Oil 4½%	93	107	4.8
Westvaco Chlorine $1½	30	30	5.0
Twentieth Century-Fox $1½	34	35	4.4
Hiram Walker-G. & W $1	19	20	5.1

Preferred Stocks for Income

At this season of the year most investors are faced with the perennial problem of finding suitable issues for accumulated capital. With (*Please turn to page* 339)

The Stockholder's Guide

Stock Dividends and Market Prices
Appraising Low Priced Motors
Erie's Plan for Debt Reduction
Advice to MacKesson & Robbins Holders

THE matter of stock dividends is one which is apparently confusing to some of our readers. The most recent case in point was the payment of a 50 per cent stock dividend by Philip Morris & Co., Ltd. In mid-September Philip Morris declared a dividend of one-half share of common stock for each share held, plus a cash dividend of 75 cents a share. Both dividends were paid on November 15, to stockholders of record on the company's books as of November 1. The New York Stock Exchange subsequently ruled that Philip Morris shares be quoted ex the stock dividend on November 17. On November 16, the shares closed at 139¼. On November 17, they sold at 91¾, ex the 50 per cent stock dividend. It was this overnight "drop" which numerous stockholders could not quite fathom.

Upon payment of the stock dividend every stockholder of 100 shares, for example, then held 150 shares. Actually, however, his equity in the company's assets and earning power remained the same, with the only difference that it was now represented by 150 share units and not 100 as previously. The day before the shares sold ex the stock dividend 100 shares had a market value of $13,925. On November 17, to acquire the same equity would have necessitated the purchase of 150 shares at a cost of $13,762.50.

The stock dividend is the means sometimes employed by companies to enlarge the number of shares outstanding, for several reasons. In the case of Philip Morris, the increased amount of stock outstanding will probably result in broader distribution and a larger number of stockholders. This was probably a sound business move on the part of the company. Selling a popular commodity and relying on large public consumption, to Philip Morris more stockholders in effect means more salesmen for its cigarettes—more word of mouth advertising.

The stock dividend is also used by some companies as means of conserving cash for working capital, which might otherwise be subject to untimely depletion by the payment of a cash dividend. This device is sound, however, only so long as the stockholders' equity increases at a rate equal to or greater than the amount of the stock dividend. Numerous companies also employed the stock dividend as means of avoiding heavy surplus profits taxes, while at the same time conserving working capital by limiting cash dividends to a more normal percentage of profits.

Much of the misunderstanding concerning stock dividends might be eliminated, if they were called stock distributions and not dividends. The stockholder merely receives a division of something which he already had.

Low-Priced Motor Issues

At the present time the automobile industry is in the midst of staging a vigorous revival. Factory production in the final quarter will be upwards of 1,000,000 units, with December output averaging about 100,000 weekly. Moreover, retail sales have practically kept pace with production, with the result that only slight increases have been shown in dealers' stocks. It is likely therefore that the rate of output will decline only moderately in the early months of 1939.

Granting the more promising outlook for the automobile industry, it nevertheless appears questionable whether any worthwhile advantage will be gained by speculating on the improved prospect through the medium of the low-priced motor shares. In that group are the shares of such leading "independent" manufacturers as Nash-Kelvinator, Packard, Studebaker and Hudson.

Intense competition has always existed in the motor industry. In late years, however, the smaller manufacturers have found it increasingly difficult to compete successfully with the Big Three and the new car market has steadily become more concentrated with General Motors, Chrysler and Ford. These three companies together in 1937 accounted for nearly 89 per cent of new car registrations. It is not that these companies possess any considerable advantage through the superiority of their cars—any automobile to sell at all today has to be good—but they do possess the important advantage of large and financially strong dealer organizations. Dealers naturally like to "ride a winning horse" and the independent manufacturers are continually faced with the problem of building up and holding an efficient dealer organization.

If anything, competition among automobile manufac-

turers throughout the 1938-39 season will be even more aggressive than usual. Looking back over the past year, it is to be noted that in the first nine months Ford cars accounted for 22 per cent of total registrations. In 1930 Ford accounted for better than 40 per cent of total new car registrations but since then the proportion has declined, while General Motors and Chrysler both have increased their share of the new market at the expense of Ford and the smaller manufacturers.

Far from being counted out, however, Ford this year is making the strongest bid for competitive gains since the introduction of the Model A, ten years ago. Ford is not emphasizing price, but is relying on excellent styling, advanced mechanical features and, for the first time, the use of hydraulic brakes. Also for the first time, with the introduction of the Mercury model, Ford will have a complete line of cars in every price class. An unusually attractive contract with Ford dealers is being counted on to spur their efforts.

While it is too early to do more than guess, 1939 may well prove to be a "Ford year." One thing, however, is certain and that is the Big Three are prepared to wage an aggressive campaign for the new-car buyer's favor, a prospect which introduces considerable uncertainty into the earnings outlook for the smaller manufacturers. It is not unlikely that all of them will report increased sales this season, but it is at least doubtful whether such gains will be sufficient to appreciably enlarge earnings. If not, then low-priced automobile shares offer scant speculative promise.

Erie Reorganization Plan

The debtor plan for reorganization of the Erie Railroad was recently filed in the Federal District Court in Cleveland. This is the second plan, the first having been filed by a group of holders of the road's refunding and improvement bonds. The most recent plan seeks to simplify capital structure of the road as well as modify and disaffirm various leases, to the end that a sizable reduction in fixed charges may be effected. Giving effect to the various proposals fixed interest charges would be cut from $12,107,900 to $6,308,537 and rentals would be scaled down from $1,867,982 to $176,000 annually. Contingent interest requirements would amount to $3,217,140. The plan further proposes the acquisition, merger or consolidation of various Erie subsidiaries.

Underlying bonds totaling about $55,000,000 will not be disturbed, under the terms of the latest reorganization plan. The holders of the road's consolidated prior lien 4's would receive 100 per cent new 50-year first and refunding 4's; the consolidated general lien 4's—10 per cent in first and refunding bonds, 65 per cent in new 75-year general income 4½'s and 25 per cent in prior preferred stock; the general mortgage convertible 4's—10 per cent in first and refunding bonds, 40 per cent in general income bonds and 50 per cent in prior preferred stock. The refunding and improvement 5 per cent bonds would be exchanged for 3.1 per cent first and refunding bonds, 19.4 per cent general income bonds, 15 per cent in prior preferred stock and 62.5 per cent in second preferred participating stock.

Holders of Erie first preferred, second preferred and common stock would receive one share of new common stock for each share held. Unsecured creditors will be given 100 per cent in second preferred participating stock. The plan also provides, through issuance of collateral trust notes, for the raising of not more than $21,500,000 cash to provide for the necessary reorganization funds.

The net result would be to reduce fixed interest debt about 50 per cent and total debt about 27 per cent. The most recent plan differs from the previous one in that it does not offer as large a reduction in debt but effects a considerably lower ratio of debt to total capitalization. Equity holders under the first plan would receive warrants to subscribe for new stock and the proceeds were to go to holders of the refunding and improvement bonds and unsecured creditors.

The I C C has set January 4 as the date when hearings on the plans will be opened. Some time will doubtless elapse before a final plan is agreed upon and submitted to holders of the road's securities, and both plans now before the I C C and the courts are likely to be altered and modified in various sections. In the meantime, it is suggested that Erie bond and stockholders alike retain their interest, pending further developments and on the chance that reorganization managers may be more successful in effecting a speedy reorganization than has thus far been the case with other financially disabled roads.

McKesson & Robbins

The McKesson & Robbins debacle since the receivership was invoked has become so involved that it is virtually impossible to even estimate the extent of the damage suffered by the company's assets—to say nothing of its good will. The ramifications of the affair have assumed startling proportions and the end is not yet in sight. Investors in the company's securities have already lost millions of dollars and until some semblance of order and accuracy has been restored to the company's books, it is hard to say whether the drastic depreciation in the value of the debentures, preferred and common stock has more than discounted the situation, or whether later developments will have a further depressing effect. Some hope is held out that the company may salvage some portion of its legitimate business by the concerted action recently taken by a large and important group of independent manufacturers and suppliers. This group has announced that the individual companies comprising it were "utterly confident in the integrity of McKesson's trustee management" and would continue to supply the firm's national chain of sixty-five wholesale houses with merchandise. What cannot be determined at this time is the extent to which the demand for McKesson products may be impaired by all of the unfavorable publicity. The value of McKesson & Robbins preferred stock and common shares particularly has been depreciated to a point where owners would risk only a comparatively small further loss by continuing to hold, on the possibility that the company's affairs may take a more constructive turn. Retention of the debentures as a speculative venture must be decided largely upon the willingness and ability of holders to assume the risks in a situation so obviously obscured by unknown and uncertain factors.

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1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

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Superheater Co.

Shall I continue to hold 50 shares of Superheater which I bought at 61? What are its possibilities for 1939, as a beneficiary of recovery in the heavy industries, utility expansion and the rearmament program? I would appreciate the opinion of your experts.—M. F., New York, N. Y.

Over the past five years, Superheater Co. has broadened the scope of its activities to include the manufacture of power plant equipment, such as boilers, generators, etc., for public utility and industrial plants. However, main revenues are still obtained from the railroad industry. A revival, therefore, in the "heavy industries" is necessary for the company to register any substantial uptrend in earnings. For the nine months ended September 30, 1938, a profit of only 45 cents a share on the common stock was recorded. This compares with a profit of $2.48 per share sustained during the like interval a year earlier. This wide fluctuation is characteristic of the earnings record of the company in that operations are directly geared to industrial activity. Given any assurance that the present betterment in business is genuine, an optimistic attitude can easily be taken in regard to the future outlook of Superheater. The industries served by Superheater have curtailed purchases as a result of the recent depression. Thus, there is every indication that customers are now suffering from a shortage of equipment. It follows, then, that when confidence in the current recovery obtains, Superheater is in an excellent position to capitalize. The rising trend of rail traffic, proposed expansion programs of public utilities and indications of many private expenditures, are all constructive longer term factors. It is doubtful, however, if any substantial pick-up in operations will be registered before 1939 is well underway. Although we believe that the current price of the shares has taken fully into consideration the more optimistic outlook, we do believe that they have much in their favor on a speculative basis. With only a single class of stock comprising the entire capitalization, a strong financial position, favorable industrial prospects, and well entrenched trade standing, the shares have a definite appeal to those investors who are seeking an equity for price appreciation and dividend possibilities.

Sears, Roebuck & Co.

Is it advisable to continue holding Sears, Roebuck for both price enhancement and satisfactory income return? We have 50 shares in our portfolio which cost 95½. How does Sears' current sales record compare with that of its competitors? What is the prospect for an extra dividend next January?—D. F., Seattle, Washington.

For the first time in over a year, volume sales of Sears, Roebuck were above 1937 levels. For the four weeks ended December 3, 1938, business was 3.9% above the comparable 1937 level. Under these conditions, it is highly possible that profits for the final half of the fiscal term will surpass the $1.28 registered for the twenty-four weeks ended July 16, 1938. At a recent meeting, however, directors took no action on a special dividend. Last year at this time $2.50 was paid. Naturally, in a company such as this, the inventory position is of prime importance. However, over a long period of years, the management of Sears has proven its ability to cope with this problem and we now find this concern in an excellent inventory position. The company distributes its products through 491 stores which it operates itself and also through a mail order division. Profit margins in its own stores are much wider than those of the mail-order division, although that fact does not lessen the latter's importance. Due to the mail order business conducted, Sears is permitted to reach a wide range of customers in the agricultural and other districts which it would ordinarily miss. Naturally, this company's business is geared closely to consumer purchasing power. The recent betterment in general business

When *Quick* Service Is Required, Send Us a Telegram Prepaid and Instruct Us to Answer Collect.

has brought about increasing volume of sales for Sears. Moreover, the company is now in its seasonally best period of the year, and operations should result in even larger profits. Financially the company is sound. While the shares at present prices are admittedly high in relation to earnings published, we are inclined to believe that the figure has not taken fully into consideration the longer term possibilities. It is therefore our recommendation to retain the shares not only for the income afforded but for the good appreciation possibilities present.

Simmons Co.

Do you think that next year Simmons may penetrate its 1937 high of 58? I have carried 100 shares bought at 56 and am gratified with the dividend payments received this year. At this time, however, should I continue to hold for further price appreciation or switch?—G. T., Miami, Fla.

Volume sales of Simmons Co. over most recent weeks have picked up substantially. As a result, it is estimated that final half year profits will be in the neighborhood of $1 per share, thus bringing full year earnings to around $1.40. Of this $1.25 has already been paid out in dividends. These liberal payments were due in a great part to the strong financial position of Simmons which allowed them to pass along the benefits of increasing earnings to its stockholders. The position of the company in relation to the furniture industry as a whole is strong, as exemplified by comparisons over the past decade. During 1937, furniture sales in general were 67% of the 1929 total, whereas Simmons sales amounted to 88% of the 1929 figure. As the company is the leading manufacturer of household accessories, most importantly, beds, they are in a position to benefit indirectly from a building boom and the furnishing of new homes. Sales of the company's items, of course, are extremely sensitive to business conditions. The recent uptrend in activity which has brought about increases in consumer purchasing power, therefore, should find direct reflection in earnings. Moreover, the management had the foresight to instigate large operating economies (it has been estimated that these would amount to more than $1,250,000 on an annual basis). It is therefore obvious that given any continued betterment in general business, that profit margins would compare much more favorably than heretofore. In our estimation, the current price of the shares has not taken fully into consideration the favorable longer term factors. Therefore, we are counselling full retention of your holdings for price appreciation possibilities and also income even though payments may continue irregular.

Bucyrus-Erie

Kindly let me have your appraisal of Bucyrus-Erie common as a medium for market appreciation. I understand there have been definite signs of improvement in the company's business in recent weeks. Do you believe the outlook indicates a sharp rise in the value of this equity? My shares cost 23 in 1937.—M. F., Schenectady, New York.

Only a slight improvement has been registered in the operations of Bucyrus-Erie and this has been in orders for light equipment for Government-sponsored projects on which the profit margins are narrow. The last report of the company is for the six months ended June 30, 1938, when a profit of 12 cents per share was recorded on the common shares. It is expected that operations will continue at just about this rate, thus earnings for the full 1938 year were probably around 25 cents per common share. A substantial uptrend in earnings, of course, awaits improvement in the purchasing power of the "heavy industries." Moreover, in order to stimulate demand, the company decreased the prices of their products, thus further narrowing profit margins. Higher taxes, costs and a decreased rate of operations have also been factors which the company has had to contend with over the past year. It is highly improbable, therefore, that earnings will reach the levels sustained a year ago until these contingencies have been removed. On the other hand, the recent improvement in business in general promises to be of benefit to the concern. Furthermore, if government projects of all types are carried out on plans now proposed, demand for Bucyrus' products should increase satisfactorily. Although the company maintains a strong balance sheet position (a net working capital of $9,029,867 being reported at the half year) there is little hope for early resumption of dividends on the common issue. Due to the unseasonally poor first quarter, no substantial pick-up in earnings is expected before the second quarter of 1939. At present low quotations, however, the stock seems to have discounted the rather mediocre outlook, and thus the shares are suitable for inclusion in a speculative portfolio.

U. S. Industrial Alcohol

Would you counsel retention of 200 shares of U. S. Industrial Alcohol bought at 42½? In view of the company's product diversification plus an increase in its basic price for alcohol, isn't this stock in a position to go much higher over the coming months?—B. Y., Boston, Mass.

While the recent steps which U. S. Industrial Alcohol Co. has taken to diversify its products will undoubtedly aid future profits, full 1938 earnings will probably fall well below the $1.24 per capital share reported for 1937. During the initial half of the current year, earnings amounted to only one cent per share as against 77 cents a share for the initial half of last year. It must be remembered, however, that the latter half is normally the best period for the company. This is true because the weather conditions prevalent in the winter governs the demand for anti-freeze, a product which bulks large in gross income. So far this year, however, unseasonally warm weather has undoubtedly had an adverse effect upon sales. Therefore, previous estimates for 1938 earnings should be scaled downward. Recent strengthening in the basic price for alcohol should allow a little wider spread in profit margins, thus enhancing slightly the earnings outlook. It is also understood that a higher price level has been obtained for at least the first quarter of 1939, thus next year's earnings outlook has improved accordingly. Although the capitalization of the company is simple, there being only 391,238 shares of no par common stock outstanding, no dividends were paid last year due to the unsatisfactory earnings. Moreover, while some betterment will be realized from the participation of the company's new division in the building industry, the outlook does not justify any disbursements during early coming months. In any event, the shares seem reasonably priced at present levels for inclusion in your longer term portfolio as a price appreciation vehicle.

Oliver Farm Equipment Co.

Am I correct in retaining 100 shares of Oliver Farm Equipment which I bought at 65? Can I look for substantial appreciation now that all bank loans have been paid off in full and because of the increase in farm purchasing power which should result from the proposed Parity Payment Plan?—S. J., Chicago, Illinois.

Oliver Farm Equipment Co. has recently cleared up all of its bank loans and is now the only major unit in the farm implement business without either bank indebtedness, long term debt or preferred stock ahead of its common stock. Outstanding are 339,196 shares of capital stock. On the shares, no dividends have ever been paid, but now that there is nothing preceding the issue, the way has been paved for future payments. For the year ended December 31, 1937, earnings of $6.44 were recorded on the capital stock. No interim reports are published by the company and it is impossible to determine how 1938 earnings compared with those of 1937. However, it is understood from a statement made by the Chairman of the company that operations were in the black for the first nine months and that profits for 1938 would result in a modest profit even in the face of a sales decline of 25%. No sharp uptrend in earnings will be possible until the company enters its seasonal period in the Spring. Possible better demand from farmers at that time should allow a fair profit margin on sales, although much depends upon growing conditions, crop yields and farm products prices. We are inclined to give the shares a speculative rating, although consideration might be given to them for their longer term potentialities. In any event, the company seems well situated to meet the keen competition experienced in this industry and as a stake in the field you can well consider retention.

Endicott Johnson

I bought 75 shares of Endicott Johnson, common, at 59 both for income and price appreciation. I am told that the company's sales are increasing, inventory position is mi- proved and operating costs reduced. Can you confirm these facts and advise me what I may expect of this stock in coming months? —R. A., Minneapolis, Minn.

The factories and tanneries of Endicott Johnson Corp. are currently running at 85% of capacity. This rate of activity was brought about by steadily increasing sales which have led to operations at the best levels for the company in two years. It is therefore anticipated that earnings for the fiscal year ended November 30, 1938, more than covered the $3 dividend rate. Moreover, as a net working capital of $22,346,825 was reported as of May 28, 1938, there is no reason to believe that the dividend rate will not be continued. This high rate of activity, has also been instrumental in placing the company in an excellent inventory position. Seasonally, the current half of the company's fiscal term is by far superior to the initial half. If leather prices remain satisfactory, therefore, earnings should show a substantial uptrend. For the fifty-two weeks ended May 28, 1938, a profit of $2.06 per common share was recorded. Profit margins of the concern are normally wide. This is due partly to the low production costs. Costs are governed directly by prices of raw materials, finished products and labor. The machines on which the company manufactures shoes are leased, rental payments being based on the actual number of shares manufactured. Over a long period of years, this has enabled a fairly close control over costs of operations. Moreover, during recent months, wage reductions have been instigated and since there is little indication that they will be reinstated until earnings justify the action, costs have been held at a very low point. As a dividend producer, therefore, the shares deserve foremost consideration. Since the company's inception in 1919, dividends have never been omitted, although in several years the full rate was not earned. Therefore, while price appreciation is not characteristic of the stock, it may be held for its excellent yield.

Atlantic Refining Co.

Is Atlantic Refining likely to become a market leader next year with the improvement expected in the petroleum industry? What will be the effect of the recent increase in shares of common outstanding and the sale of $25,000,000 of convertible debentures? What is your appraisal of the outlook for 100 shares which cost me 36½?—T. W., Washington, D. C.

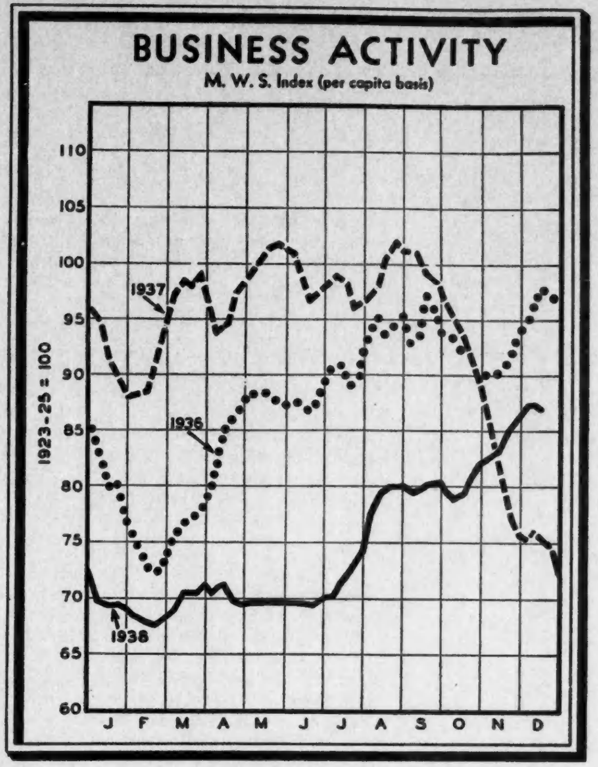
For the nine months ended September 30, 1938, Atlantic Refining Co. reported a profit of $1.31 on the common stock. This compares with a profit of $2.64 per common share registered during the like nine months of 1937. At this writing, it is estimated that ful year profits were in the neighborhood of $2 per common share. Profit margins of the concern are narrow due to the fact that Atlantic purchases the major portion of its crude requirements and the narrow spread between the crude and refined products tends to restrict margins. Recent increases in the authorized indebtedness of the company should aid them in the future. The proceeds from the $25,000,000 debenture issue will be used to retire $16,200,000 in bank loans, the remainder being added to cash and for capital expenditure purposes. The common stock issue was also increased by 1,000,000 shares. The company has continued its policy of acquiring acreage with a view to lessening dependence for crude upon outside sources. It is primary to the greater efficiency of present refinery capacity and to the expanding volume of sales, however, that the stockholder must look for a worth while gain. Therefore, no immediate effect is possible from the increases in acreage currently being reported by the concern. In any event, while we do not look upon the shares as better than average for price appreciation, they may be maintained in your portfolio, on a longer term basis, for the income afforded. Moreover, as the statistical position of the oil industry improves, these shares could easily join any upward movement of oil company shares as a whole.

Atlas Powder

In view of the diversified industries to which Atlas Powder sells its products, is this stock likely to make outstanding gains as general recovery accelerates? Will the present high price-earnings ratio be maintained? Will the company benefit from the vast Rearmament Program? I am holding 50 shares at 90, and would appreciate your opinion.— O. P., Mobile, Ala.

Future profits of Atlas Powder Co. hinge directly upon the extent of the business revival currently in progress. This is true because of the extensive use of the company's products in a variety of industries. While 50% of the company's revenues is derived from the manufacture of dynamite and blasting powder, many new products have been in-

(*Please turn to page 344*)



CONCLUSIONS

INDUSTRY — Further improvement expected after the holidays.

TRADE—Retail unit sales 4% above last year.

COMMODITIES — Raw materials generally firm. Wholesale and retail prices steady.

MONEY AND CREDIT—Holiday demands temporarily reduce reserves.

The Business Analyst

With several important industries devoting more than the usual amount of attention to reduction of year-end inventories for window dressing and tax saving purposes, the Nation's per capital volume of **Business Activity** contracted moderately during the week ended Dec. 17 to 87.2% of the 1923-5 average, after expanding fractionally from 87.7 in the week of Dec. 3 to 88.0 during the week ended Dec. 10. It is quite possible that some further slackening of a purely technical character may be reported during the closing fortnight of December; but the undercurrent of improvement is still running so strong in leading heavy goods lines such as **Construction, Automobiles** and **Railroad Equipment** that a resumption of business recovery shortly after the holidays seems assured.

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New Corporate Capital raised through flotation of securities amounted to 43 millions in November, a 20% increase over last year. For 11 months the total has been $806,000,000, 32% below the like period of 1937. Total Government Expenditures during November were $179,000,000 more than for November, 1937, raising the cumulative increase for five months to $630,000,000. The Bell System's station gains during November amounted to

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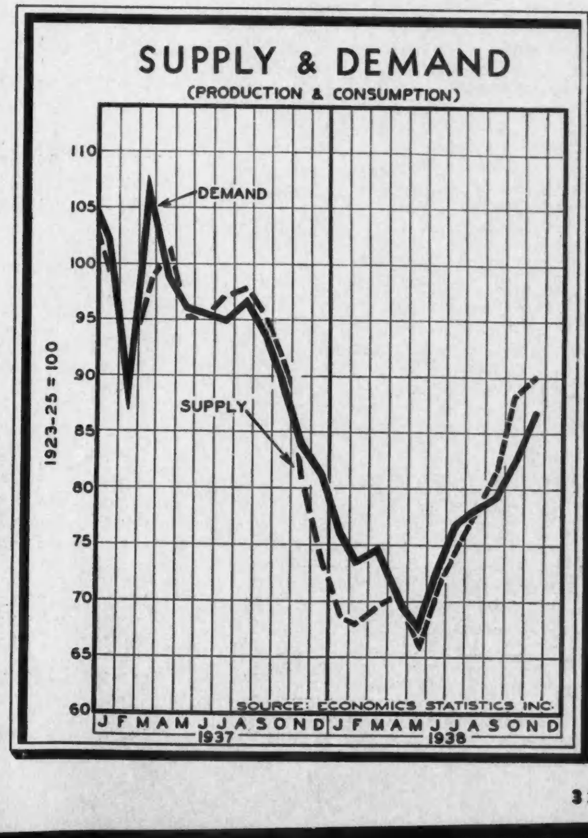

Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (b)				
World	Sept.	90.1	94.9	108.9
U. S. A. (ba)	Nov.	100	97	88
Canada	Sept.	102.5	94.1	108.2
United Kingdom	Oct.	110.8	110.8	121.0
Italy	Sept.	100.6	91.2	113.8
Germany	Sept.	127.2	128.6	119.9
WHOLESALE PRICES (h)	Nov.	77.3(pl)	77.6	83.3
COST OF LIVING (d)				
All Items	Nov.	85.6	85.8	89.0
Food	Nov.	79.5	79.8	85.4
Housing	Nov.	86.4	86.6	89.1
Clothing	Nov.	73.2	73.2	78.3
Fuel and Light	Nov.	85.9	85.6	85.8
Sundries	Nov.	96.8	96.8	97.8
Purchasing value of dollar	Nov.	116.8	116.6	112.4
NATIONAL INCOME (cm)†	Oct.	$5,654	$5,465	$6,034
CASH FARM INCOME†				
Farm Marketing	Nov.	$660	$777	$713
Including Gov't Payments	Nov.	708	839	716
Income	1938	7,625(pl)	.....	8,600
Prices Received by Farmers (ee)	Nov.	94	95	107
Prices Paid by Farmers (ee)	Nov.	121	121	127
Ratio: Prices Received to Prices Paid (ee)	Nov.	78	79	84
FACTORY EMPLOYMENT (f)				
Durable Goods	Nov.	82.1	79.1	100.8
Non-durable Goods	Nov.	98.6	99.3	101.4
FACTORY PAYROLLS (f) (not adjusted)	Nov.	84.1	83.9	92.9
RETAIL TRADE				
Department Store Sales (f)	Nov.	88	84	91
Chain Store Sales (g)	Nov.	109.5	108.0	110.6
Variety Store Sales (g)	Nov.	115.4	113.2	101.0
Rural Retail Sales (j)	Nov.	119.5	115.5	118.8
Retail Prices (s) as of	Dec. 1	88.9	89.0	94.5
FOREIGN TRADE				
Merchandise Exports†	Oct.	$277.9	$246.4	$332.7
Cumulative year's total†	Oct.	2,573.0	......	2,711.1
Merchandise Imports†	Oct.	178.0	167.7	224.3
Cumulative year's total†	Oct.	1,612.9	......	2,652.0
RAILROAD EARNINGS				
Total Operating Revenues*	1st 10 ms.	$2,927,472	......	$3,547,567
Total Operating Expenditures*	1st 10 ms.	2,258,269	......	2,626,414
Taxes*	1st 10 ms.	286,501	......	278,579
Net Rwy. Operating Income*	1st 10 ms.	273,709	......	531,689
Operating Ratio %	1st 10 ms.	77.14	......	74.03
Rate of Return %	1st 10 ms.	1.24	......	2.42
BUILDING Contract Awards (k)				
Total†	Nov.	$301.7	$357.7	$198.4
Residential†	Nov.	95.3	112.7	59.9
Public Works and Utility†	Nov.	90.4	114.0	59.2
Non-Residential†	Nov.	116.0	131.0	79.3
Publicly Financed†	Nov.	178.9	203.4	92.9
Privately Financed†	Nov.	122.8	154.3	105.5
Building Permits (c)				
214 Cities†	Nov.	$67.5	$77.0	$50.2
New York City†	Nov.	22.2	20.1	19.4
Total, U. S.†	Nov.	89.7	97.1	69.6
Engineering Contracts (En)†	Nov.	$217.0	$235.9	$165.6
CONSTRUCTION COST INDEX (En) 1913—100	Dec. 1	234.89	234.40	241.05

PRESENT POSITION AND OUTLOOK

(Continued from page 329)

60,200, against 53,600 a year ago. According to estimates by the American Federation of Labor, **unemployment** dropped 90,000 during November, to 10,375,000.

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During the first half of December, **raw material prices** declined somewhat faster than during the like interval in 1937, and now average about 3% below last year; though copper, tin, cotton, silk, rubber and hides have advanced within the 12 months. Wheat, which is 25% below last year, shows the largest comparative decline. **Prices received by farmers** average 12% lower than a year ago. **Retail prices** are down 6% in a year.

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Department store sales during the week ended Dec. 10 were only 2% below last year in dollar totals, and gained 4% in unit quantity, owing to lower prices. For November, the decrease in dollar totals was nearly 4%; though **chain stores** and **rural stores** reported average sales gains of 1%, with **mail order sales** up 4.4%, and **variety store sales** off only 0.1%. Expanding industrial activity, the Lima parley and our new trade pacts, along with expenditures to aid European refugees, should all combine to expand our **foreign** trade next year; though competition will be intensified through various forms of government subsidies. British **steel** prices, for example, have recently been cut, and Parliament is being asked to provide about $350,000,000 to reimburse exporters for losses sustained in meeting Germany's barter trade competition. Our own Government is already embarking in a small way upon a program of promoting **exports** to South America, China, and perhaps elsewhere, through credit grants.

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Although **carloadings** are running somewhat ahead of last year, the margin of gain is increasing less rapidly than expected owing to the retarding effect of unseasonably warm weather upon soft **coal** shipments. **Railroad** n. o. i. for November, however, was about 30% above last year, compared with an estimated decrease of 40% for the calendar year. Decision of southeastern carriers to reduce coach passenger rates by ½c to 1½c brings further pressure upon fare schedules of eastern rails.

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Construction contracts awarded during November in 37 states east of the Rockies amounted to $302,000,000, an increase of 52% over last year, against an 11-months' recession of 4%. Private awards gained 16%, compared with an 11-months' decline of 17%. Total construction expenditures for 1938—including maintenance and work-relief construction—are placed by the Department of Commerce at $8,800,000,000, the largest since 1930 and $125,000,000 ahead of 1937. President Roosevelt has authorized the F H A to increase its mortgage insurance limit by a billion dollars to $3,000,000,000, which will permit the continuation of activities at current rate for another 1½ years.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Nov.	3,572	3,118	2,154
Pig Iron Production in tons★	Nov.	2,270	2,052	2,007
Shipments, U. S. Steel in tons★	Nov.	680	663	587
AUTOMOBILES				
Production				
Factory Sales	Nov.	372,358	209,522	360,055
Total 1st 11 Months	......	2,230,889	......	4,652,514
Retail Sales				
Passenger Cars, U. S. (p)	Oct.	134,668	90,629	212,651
Trucks, U. S. (p)	Oct.	17,283	25,710	31,510
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Nov.	323.7	327.7	381.6
Shipments, U. S. & Canada★ (tons)	Nov.	340.7	327.3	418.7
Mill Stocks, U. S. & Canada★ (tons)	Nov. 30	197.9	214.9	71.8
LIQUOR (Whisky)				
Production, Gals.★	Nov.	10,562	8,119	9,867
Withdrawn, Gals.★	Nov.	9,571	8,173	9,571
Stocks, Gals.★	Nov.	466,176	466,376	449,903
GENERAL				
Machine Tool Orders (n)	Nov.	112.2	118.1	127.7
Railway Equipment Orders (Ry)				
Locomotive	Nov.	3	29	13
Freight Cars	Nov.	132	2,435	1,625
Passenger Cars	Nov.	32	None	13
Cigarette Production†	Oct.	13,506	13,264	12,786
Bituminous Coal Production★ (tons)	Oct.	34,900	32,276	40,833
Boot and Shoe Production Prs.★	Nov.	27,500(pl)	34,616	21,041
Portland Cement Shipments★	Nov.	8,573	12,357	8,188
Commercial Failures (c)	Nov.	984	999	842

PRESENT POSITION AND OUTLOOK

Automobile production during November was in the neighborhood of 383,000, resulting in a gain of something more than 100,000 units in new car inventories; but the total is still over 40% below last year. Fourth quarter output is now estimated at around 1,060,000—about the same as last year. Retail sales of new cars during November were about 65% ahead of October, and 4% above last year. December's sales are expected to equal November's and to top last year by around 22%.

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North American **newsprint** production during November was the highest since December, 1937, and only 11% below last year, compared with an 11-months' decline of 25%. November shipments were 23,000 tons above production, thereby reducing mill stocks by 9% during the month. Total stocks as of Nov. 30 in the hands of North American mills and publishers were 26% lower than on the like date a year earlier.

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Although a new 1938 high was made during November for domestic **machine tool orders,** a falling off in foreign orders during the month caused total bookings to decline 5.5% to a level 12% below last year. November production of **Portland cement** was 10% ahead of last year. Stocks were off 2%.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY	Dec. 17	87.2(pl)	88.0	75.3
ELEC. POWER OUTPUT K.W.H.†	Dec. 17	2,333	2,319	2,202
CARLOADINGS				
Total	Dec. 17	606,314	619,340	600,283
Grain	Dec. 17	35,956	34,421	34,894
Coal	Dec. 17	126,344	128,210	150,421
Forest Products	Dec. 17	29,113	28,043	24,923
Manufacturing & Miscellaneous	Dec. 17	238,669	245,761	215,236
L. C. L. Mdse	Dec. 17	148,091	151,325	145,546
STEEL PRICES				
Pig Iron $ per ton (m)	Dec. 20	20.61	20.61	23.25
Scrap $ per ton (m)	Dec. 20	14.92	14.92	13.58
Finished c per lb. (m)	Dec. 20	2.286	2.286	2.512
STEEL OPERATIONS				
% of Capacity week ended (m)	Dec. 24	53.0	58.0	23.5
CAPITAL GOODS ACTIVITY (m) week ended	Dec. 17	83.5	82.8	60.1
PETROLEUM				
Average Daily Production bbls.★	Dec. 17	3,276	3,245	3,440
Crude Runs to Stills Avge. bbls.★	Dec. 17	3,245	3,150	3,173
Total Gasoline Stocks bbls.★	Dec. 17	69,635	68,587	68,587
Gas and Fuel Oil Stocks bbls.★	Dec. 17	148,573	150,779	118,711
Crude—Mid-Cont. $ per bbl	Dec. 23	1.02	1.02	1.27
Gasoline—Refinery $ per gal	Dec. 23	.06⅛	.06⅛	.07¼

PRESENT POSITION AND OUTLOOK

Electric power output continues to decline at a somewhat less than normal seasonal rate, despite the year-end slackening in manufacturing activities. Present indications are that output for the first quarter of 1939 will be the largest for any like period on record, and that the industry's first quarter earnings will top profits for this year's first quarter by around 5%.

• • •

Although **steel operations** are tapering off at a somewhat greater than normal seasonal rate as year-end inventory taking time approaches, a sharp rebound is looked for after the holidays, because of expanding activity in such important consuming industries as Construction, Automobiles, Railroad Equipment and Canning.

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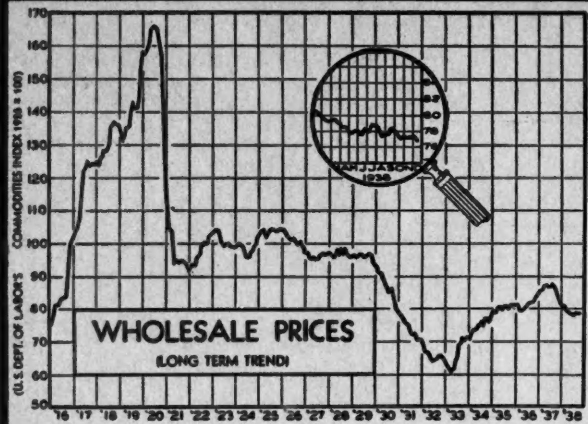
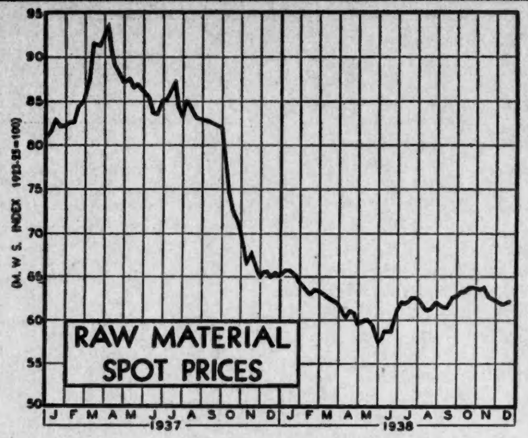
The unexpected action by Texas in extending for the entire first quarter of next year the present five-day-weekly schedule of **crude** production has been generally well received in **oil** circles, yet there is considerable apprehension that the Government will assume greater control over the industry unless other states, particularly California, join the "big three" producing areas in a program of voluntary control of crude and its principal refined products. Under current unstable conditions, few companies are able to earn even a fair return.

†—Millions. ★—Thousands. (b)—Annalist Index 1928—100. (ba)—Federal Reserve 1923-25—100. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (En)—Engineering News Record. (Ry)—Railway Age.

Trend of Commodities

There has been no deviation in the narrow and comparatively insignificant price movements of major commodities, both agricultural and industrial. In recent months the gap between farm prices and the prices of finished and semi-finished industrial products has narrowed somewhat, although the latter are still about 12.5 points higher. Seasonal influences may have the effect of strengthening the price structure of agricultural commodities but there is scant likelihood that the two groups will be brought into virtual balance in the near future. Huge supplies and restricted exports will continue to be a drag on farm prices, while aside from a few minor adjustments, prices of industrial commodities promise to remain firm to slightly higher. Price raising schemes have been practically fruitless and barring a serious drought or a deterioration in growing conditions, substantially higher farm prices appear remote.





Changes in Major Commodity Price Groups for the Fortnight Ended December 17, 1938

Farm Products	67.4	down 1.7	Metals	94.8	down 0.2
Foods	72.6	down 1.7	Building Material	89.2	down 0.1
Hides and Leather	93.8	down 0.6	Chemi al	76.3	no change
Textiles	65.2	down 0.4	Housefurnishings	87.6	down 0.1
Fuel and Lighting	74.1	down 0.2	Miscellaneous	72.9	up 0.5

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
January	Dec. 23	8.30	8.24	8.21
March	Dec 23	8.37	8.21	8.34
Spot	Dec. 23	8.82	8.66	8.44
(In bales 000's)				
Visible Supply, World	Dec. 16	9,578	9,724	9,015
Takings, World, wk. end	Dec. 16	483	400	383
Total Takings, season Aug. 1 to	Dec. 16	7,346	6,172	7,196
Consumption, U. S.	Nov.	596	543	485
Exports, wk. end	Dec. 16	45	134	129
Total Exports, season Aug. 1 to	Dec. 16	1,719	1,674	2,906
Government Crop Est. (final)	Dec. 1	12,008	12,137	18,946(e)
Active Spindles (000's)	Nov.	22,449	22,114	22,778
WHEAT				
Price cents per bu. Chi. closing				
December	Dec. 23	......	63⅜	94⅝
May	Dec. 23	67¼	66⅛	91¼
Exports bu. (000's) since July 1 to	Dec. 10	82,081	81,846	64,010
Exports bu. (000's) wk. end	Dec. 10	235	1,967	2,253
Visible Supply bu. (000's) as of	Dec. 10	120,249	123,171	97,520
Gov't Crop Est. bu. (000's)	Dec. 1	930,801	940,229	873,993(e)
CORN				
Price cents per bu. Chi. closing				
December	Dec. 23	......	49⅛	58⅛
May	Dec. 23	52⅝	51⅝	59⅝
Exports bu. (000's) since July 1 to	Dec. 10	50,021	49,729	2,401
Visible Supply bu. (000's) as of	Dec. 10	46,037	45,530	28,424
Gov't Crop Est. bu. (000's)	Dec.	12,480,958	......	2,64,,955(e)

PRESENT POSITION AND OUTLOOK

Cotton. With producers voting 84.2 per cent in favor of marketing quotas loans at 52 per cent of "parity" will be mandatory next season. Whether the new Congress will be in a mood to make the necessary appropriations for such loans is another matter. Loan stocks are nearing the 11,000,000-bale figure and exports in the first three months of the 1938-39 season were more than 1,000,000 bales less than a year ago.

* * *

Wheat. The final Government estimate placing the 1938 crop at 930,801,000 bushels made it the fourth largest in the nation's history. Reflecting poor growing conditions in the winter wheat belt, the Government estimates a reduction of 200,000,000 bushels in the new crop. Conditions were reported 72 per cent of normal. Any estimate at this early date is, of course, subject to considerable later modification but even granting a yield no better than present appearances, the huge world supplies are unlikely to be sufficiently reduced to bring about any worthwhile recovery in prices.

* * *

Corn. Prices are under the influence of the heavy marketing season as visible supplies mount. Exports may reach 30,000,000 bushels during the next several months before the Argentine crop will be ready for market. Moderately higher prices may materialize after the turn of the year.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Dec. 23	11.25	11.25	10.125
Export c. i. f.	Dec. 23	10.35	10.35-.40	10.10-.15
Refined Prod., Domestic (tons)	Nov.	177,810	167,225	185,270
Refined Del., Domestic (tons)	Nov.	177,984	199,968	154,588
Refined Stocks, Domestic (tons)	Nov. 30	424,537	424,711	413,846
Refined Prod., World (tons)	Nov.	66,746	56,824	75,791
Refined Del., World (tons)	Nov.	51,297	69,827	33,892
Refined Stocks, World (tons)	Nov. 30	269,488	267,299	221,676
TIN				
Price cents per lb., N. Y.	Dec. 23	46.35	46.00	42.00
Tin Plate, price $ per box	Dec. 23	5.00	5.00	5.35
World Visible Supply as of†	Nov. 30	30,598	31,539	24,389
U. S. Deliveries†	Nov.	3,535	4,960	5,195
U. S. Visible Supply as of†	Nov. 30	5,060	4,500	5,285
LEAD				
Price cents per lb., N. Y.	Dec. 23	4.85	4.75	4.75
U. S. Production (tons)	Nov.	39,800	31,843	46,796
U. S. Shipments (tons)	Nov.	42,032	45,726	33,853
Stocks (tons) U. S., as of	Nov. 30	115,236	117,476	113,573
ZINC				
Price cents per lb., St. Louis	Dec. 23	4.50	4.50	5.00
U. S. Production (tons)	Nov.	41,599	35,631	31,749
U. S. Shipments (tons)	Nov.	43,693	43,355	32,676
Stocks (tons) U. S., as of	Nov. 30	120,778	124,128	42,534
SILK				
Price $ per lb. Japan xx crack	Dec. 23	1.84	1.82	1.58½
Mill Dels. U. S. (bales), season to	Nov. 30	187,171	......	169,079
Mill Deliveries U. S. (bales)	Nov.	41,599	35,631	31,749
Visible Stocks N. Y. (bales) as of	Nov. 30	46,218	43,811	45,424
Visible Stocks, World (bales) as of	Nov. 30	150,718	151,311	156,724
RAYON (Yarn)				
Price cents per lb	Dec. 23	5.10	51.0	63.0
Consumption (a)	Nov.	21.0	24.5	9.4
Stocks (a)	Nov. 30	39.7	35.8	44.5
WOOL				
Tops, cents per lb. territory fine	Dec. 23	83.0	82.0	87.5
HIDES				
Price cents per lb. No. 1 Packers	Dec. 23	12.00	11.50	11.00
Visible Stocks (000's) (b) as of	Sept. 30	13,270	13,311	14,663
No. of Mos. Supply as of	Sept. 30	7.0	7.6	7.7
RUBBER				
Price cents per lb	Dec. 23	16.45	16.25	15.12
Imports, U. S.†	Nov.	31,054	34,496	56,302
Consumption, U. S.†	Nov.	46,048	40,333	34,025
Stocks, U. S. as of†	Nov. 30	254,318	269,937	222,707
Tire Production (000's)	Nov.	4,117	4,134	3,120
Tire Shipments (000's)	Nov.	4,442	4,144	3,777
Tire Inventory (000's) as of	Nov. 30	7,924	8,237	10,963
COFFEE				
Price cents per lb. (c)	Dec. 23	7¾-8	7¾-8	9.0
Imports (bags 000's)	Nov.	1,213	1,077	......
Imports, season to	Nov. 30	5,659	......	4,182
U. S. Visible Supply (bags 000's)	Dec. 1	1,522	1,448	1,076
SUGAR				
Price cents per lb.				
Domestic No. 3 Jan	Dec. 23	1.83	1.85	.....
Duty free delivered	Dec. 23	2.85	2.88	3.20
Refined (Immediate Shipment)	Dec. 23	4.30-4.45	4.30-4.45	4.85
U. S. Deliveries (000's)*	1st 10 Mos.	5,479	......	5,729
U. S. Stocks (000's)* as of	Oct. 31	1,581	......	1,156

PRESENT POSITION AND OUTLOOK

Copper. Domestic consumption of copper by fabricators in November was 52,708 tons, comparing with 65,731 tons in October. Although consumption declined some 13,000 tons it was in practical balance with deliveries from refiners which totaled 51,297 tons. December figures will doubtless reveal a further substantial decline in both deliveries and consumption, reflecting chiefly the desire on the part of fabricators to avoid large year-end inventories. Firmness in both foreign and domestic prices is foreshadowed.

* * *

Tin. Year-end influences are reflected in a dull demand and major markets are quiet. Prices, however, have been firm, and as the past week drew to a close quotations were marked higher.

* * *

Lead. Lead stocks declined 2,240 tons in November, with the result that the total of 115,236 was the smallest since December 1, 1937. Lead, of all the non-ferrous metals, has shown the most consistent improvement in its statistical position. Recent reductions of $7 a ton were not justified by the figures and it was therefore not surprising that prices more recently were advanced $2 a ton.

* * *

Zinc. Market demand has turned sluggish and end-of-the-year factors have been readily apparent. Some satisfaction, however, is to be drawn from the firmer quotations in London, suggesting that perhaps the underlying feeling is more optimistic than might be gathered from the listlessness of the market.

* * *

Silk. Although hosiery shipments declined 3.9 per cent in October, this decline was to be expected in the face of the heavy volume of shipments in August and September. For the first ten months, shipments were only 1.4 per cent behind last year and the turnover of stocks has been at a very satisfactory level.

* * *

Rayon. The pick-up in sales which made its appearance in the last half of November was probably carried through into December. Although prices remain unchanged, the promise of further expansion in sales volume in the early months of 1939 may well be accompanied by some advance in prices.

* * *

Wool. Demand for both men's and women's wear clothes has gained appreciably in recent weeks, with the result that many mills are booked well through February. Activity is being stepped up but customers are insistent in their demands for speedy delivery.

* * *

Hides. Supplies are the lowest in 16 years and based on recent reports of the Department of Agriculture the potential supplies of hides in 1939 will not be much greater or less than in the past four years. Sales to tanners have been large in recent weeks and more immediate requirements have probably been satisfied.

* * *

Rubber. Shipments of tires in November were the largest for any month since August 1937. The increase over October was 7.2 per cent, while the gain over November 1937 was 17.6 per cent. Production, on the other hand, was off 1 per cent from October and stocks at the end of the month were 3.8 per cent lower than at the end of November. Crude prices should remain firm.

(a)—Million pounds. (c)—Santos No. 4 N. Y. (e)—1937 Harvest. (f)—Refiners' stocks of raw and refined. †—Long tons. *—Short tons.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (90 days)	Dec. 23	1¼%	1¼%	1¼%
Prime Commercial Paper	Dec. 23	⅝-1%	⅝-1%	1%
Call Money	Dec. 23	1%	1%	1%
Re-discount Rate, N. Y.	Dec. 23	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Dec. 10	$2,368	$2,625	$2,350
Cumulative year's total to	Dec. 10	112,966	......	129,540
Bank Clearings N. Y.	Dec. 10	3,813	3,808	3,280
Cumulative year's total to	Dec. 10	156,213	......	178,968
F. R. Member Banks				
Loans and Investments	Dec. 14	21,504	21,450	21,668
Commercial, Agr., Ind. Loans	Dec. 14	3,872	3,881	4,645
Brokers Loans	Dec. 14	858	838	913
Invest. in U. S. Gov'ts	Dec. 14	8,080	8,087	8,172
Invest. in Gov't Gtd. Securities	Dec. 14	1,696	1,685	1,114
Other Securities	Dec. 14	3,232	3,218	2,882
Demand Deposits	Dec. 14	16,221	16,114	14,675
Time Deposits	Dec. 14	5,130	5,127	5,192
New York City Member Banks				
Total Loans and Invest.	Dec. 21	7,855	7,876	7,869
Comm'l, Ind. and Agr. Loans	Dec. 21	1,384	1,408	1,794
Brokers Loans	Dec. 21	690	695	714
Invest. U. S. Gov'ts	Dec. 21	2,881	2,861	3,046
Invest. in Gov't Gtd. Securities	Dec. 21	845	826	359
Other Securities	Dec. 21	1,089	1,101	1,233
Demand Deposits	Dec. 21	6,854	6,884	5,732
Time Deposits	Dec. 21	599	601	666
Federal Reserve Banks				
Member Bank Reserve Balance	Dec. 21	8,472	9,034	6,855
Money in Circulation	Dec. 21	6,943	6,858	6,681
Gold Stock	Dec. 21	14,454	14,380	12,765
Treasury Currency	Dec. 21	2,788	2,784	2,946
Treasury Cash	Dec. 21	2,677	2,651	3,625
Excess Reserves	Dec. 21	2,980	3,480	1,007

	Date	Latest Month	Last Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Nov.	$145.4	$337.2	$37.2
New Capital	Nov.	102.4	63.9	36.1
Refunding	Nov.	43.0	273.3	1.1

COMMENT

Recent changes in the banking position lack particular significance for the reason that for the most part they are temporary and reflect year-end influences. All **Member Bank** excess reserves registered a decline of $500,000,000 reflecting an increase of $85,000,000 in currency circulation and an increase of $612,000,000 in Treasury deposits at Reserve Banks. Following the removal of the holiday demand for cash and the return of funds to banks, there is every indication that excess reserves will be swollen to new high levels. The latest statement of **New York City Member Banks** revealed a further decline in loans to commerce, industry and agriculture, the latest drop amounting to $24,000,000. It was expected that following the Treasury financing, New York banks would show a sizable increase in their holdings of government bonds. Holdings of U. S. Government direct bonds, however, gained only $20,000,000 in the latest week. The failure of this section of bank portfolios to show a larger increase may have been due to the concentration in the 2% Treasury bills which were offered only in exchange for the March notes. Holdings of government guaranteed issues in New York City bank portfolios increased $19,000,000, but holdings of other securities were off $12,000,000.

* * *

Contrary to the experience of New York City banks, out-of-town banks have been able to show rather stiff resistance to the factors normally resulting in a decline in commercial borrowings at this season of the year. In the past two weeks, reporting banks in 100 cities outside of New York actually reported an increase of $22,000,000 in commercial, industrial and agricultural loans. Demand deposits of all reporting banks increased $107,000,000 in the latest week to a new high level.

POSITION OF FOREIGN BANKS

	Dec. 14, 1938	Dec. 15, 1937
BANK OF ENGLAND		
Circulation	£495,349,000	£501,954,435
Public Deposits	15,608,000	11,432,250
Private Deposits	135,549,263	139,844,159
Bankers Accounts	99,547,368	103,381,527
Other Accounts	36,001,895	36,462,632
Government Securities	68,361,164	95,008,165
Other Securities	38,513,963	28,565,510
Discount and Advances	16,819,167	7,848,748
Securities	21,694,796	20,716,762
Reserve Notes & Coin	62,170,000	45,608,779
Coin and Bullion	327,518,976	327,563,214
BANK OF FRANCE	Dec. 8, 1938	Dec. 9, 1937
Gold Holdings	Fr.87,264,646,275	Fr.58,932,243,349
Credit Balances Abroad	19,447,612	17,868,598
Bills on France	10,613,154,259	8,734,636,826
Wheat Office Bills	....	....
Advance Against Securities	3,707,422,497	3,762,687,505
Note Circulation	108,779,922,145	91,142,819,535
Credit Current Accounts	33,911,919,886	18,980,468,484
Temp. Advs. to State	20,627,440,996	26,918,460,497
Gold on Hand to Sight Liabilities	61.16%	53.51%

COMMENT

At the end of last September the total national debt of Great Britain was £8,320,000,000 as compared with £7,435,000,000 at the end of the World War. Despite the increase in the current debt, interest charges in the 1937-38 fiscal year amounted to only £216,000,000 as compared with £332,000,000 in 1919-20. Moreover, the British national debt in relation to national income has shown a decline in recent years, the present ratio of debt service to national income now standing at 4.5 as compared with 8.8 in 1924. That the present favorable ratio can be maintained in the face of the heavy rearmament expenditures which have been planned is very doubtful.

* * *

Premier Daladier and his government escaped ouster by the narrow margin of seven votes when the Chamber of Deputies voted on Finance Minister Reynaud's finance bill. The deputies approved the controversial second article of the bill by the narrow margin of 291 to 284. This article established the principle of the decree laws.

POSITION OF FOREIGN BANKS—Continued

GERMAN REICHSBANK	Dec. 15, 1938	Dec. 15, 1937
Gold and Bullion	Rm.70,700,000	Rm.70,500,000
Of Which Deposits Abroad	....	....
Reserve in Foreign Currency	6,100,000	5,300,000
Bills of Exchange & Checks	7,244,200,000	5,240,500,000
Investments	....	....
Other Assets	....	....
Notes in Circulation	7,661,200,000	5,005,900
Other Daily Matured Obligations	....	....
Advances	57,600,000	56,700,000
Proportion of Gold & Foreign Currency to Note Circulation	1.00%	1.51%

Industrially, the week-to-week trend of events in Germany has shown little or no variation for some time. The government is relentless in its efforts to increase the volume of industrial production and construction. The shortage of skilled labor has become exceedingly acute and is being virtually drafted into large governmental projects. Meanwhile, Germany is putting forth every effort to expand its export trade, the recent trade agreement with Rumania being the latest move in that direction.

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BANK OF CANADA	Dec. 14, 1938	Dec. 15, 1937
Reserve Gold, Coin & Bullion	$181,826,000	$179,443,000
Silver Bullion	....	2,573,000
Reserve in Sterl. & U. S. Dollars	43,844,000	30,581,000
Subsidiary Coin	247,000	132,000
Dom. & Prov. Gov't Short Term Securities	153,293,000	58,040,000
Other Dom. & Prov. Securities	39,498,000	97,174,000
Other Securities	....	10,990,000
Note Circulation	173,284,000	155,831,000
Deposits—Dom. Gov't	31,446,000	29,901,000
Chartered Banks	206,588,000	181,735,000
Res. to Note & Dep. Liabilities	54.51%	57.67%

The course of business recovery in Canada registered further gains in November. Construction activity is expanding rapidly, responding to a government loan plan, while mining activity and a heavy movement of wheat are making important contributions. Retail trade has lagged somewhat but dividend payments in 1938 will fall only slightly short of the previous all-time high.

FOREIGN EXCHANGE IN DOLLAR TERMS

Quotations in cents and decimals of a cent except pound sterling which is in dollars and cents.	Demand		Cables	
Country and Par	Dec. 22	Year Ago	Dec. 22	Year Ago
Great Britain ($8.2397 a sov.)	4.66⅝	4.99⅞	4.66⅝	4.99⅞
Belgium (16.9502c a belga)	16.87	16.97	16.87	16.97
Czecho-Slovakia (3.51c a crown)	3.43	3.51⅜	3.43	3.51⅜
Denmark (45.374c a krone)	20.83	22.32	20.83	22.32
Finland (4.264c a finmark)	2.06¾	2.21⅜	2.06¾	2.21⅜
France (par not definite)	2.63½	3.39⅞	2.63½	3.39⅞
Germany (40.33c mark)**	40.09½	40.30	40.09½	40.30
Germany (benevolent mark)	22.60	.....	22.60	.....
Germany (travel mark)	22.50	25.75	22.50	25.75
Germany (emigrant mark)†	4.80	.....	4.80	.....
Germany (kredit mark)†	5.00	.....	5.00	.....
Greece (2.197c a drachma)	0.85⅝	0.91¾	0.85¾	0.91⅞
Holland (par not definite)	54.36	55.61	54.36	55.61
Hungary (29.613c a pengo)¶	19.82	19.95	19.82	19.95
Italy (5.2634c a lira)§	5.26¼	5.26½	5.26¼	5.26½
Norway (45.374c a krone)	23.44½	25.12	23.44½	25.12
Poland (18.994c a zloty)	18.95	18.98	18.95	18.98
Rumania (1.012c a leu)	0.75	0.75	0.75	0.75
Sweden (45.374c a krona)	24.02½	25.77	24.04½	25.77
Switzerland (par not definite)	22.59	23.13	22.59	23.13
Yugoslavia (2.981c a dinar)	2.32	2.36	2.32	2.36
Shanghai dollars (unsettled)	16.75	29.50	16.75	29.50
Hongkong dollars (unsettled)	29.25	31.30	29.25	31.30
India (61.798c a rupee)	34.87	37.75	34.87	37.75
Japan (84.39c a yen)	27.21	29.10	27.21	29.10
Sts. Settlements (96.139c a dollar)	54.37½	58.75	54.37½	58.75
Argentina (71.87c a paper peso)¶	22.88	29.40	22.88	29.40
Argentina (71.87c a paper peso)**	31.12½	33.33	31.12½	33.33
Brazil (20.25c a paper milreis)**	5.90	5.50	5.90	5.50
Chile (20.599c a gold peso)†	5.19	5.19	5.19	5.19
Colombia ($1.645 a gold peso)	56.98	54.80	56.98	54.80
Mexico peso (unsettled†)	20.70	27.80	20.70	27.80
Peru (47.409c a sol)†	20.62½	24.62½	20.62½	24.62½
Uruguay ($1.751 a gold peso)¶	36.50	54.50	36.50	54.50
Uruguay ($1.751 a gold peso)**†	61.43	80.05	61.43	80.05
Venezuela (32.67c a bolivar)¶	31.50	‡	31.50	‡
Venezuela (32.67c a bolivar)**	31.63	31.62½	31.63	31.62½

COMMENT

Signs of an approaching equilibrium are visible in the foreign exchange market. Where previous weeks have seen prolonged and impetuous drives in one direction or the other, but almost always toward the net enhancement of the dollar, recent changes have been shorter in both time and size, with momentum easily lost. The situation today could be called stable only in comparison with the fevered past months, and as long as European capital faces so many threats to its safety it will undoubtedly continue to run from the danger of the moment; nevertheless, it would not be over-optimistic to hope that foreign exchange fluctuations as an impediment to business will lose much of their potency.

* * *

One of the most sustained of recent influences on the French franc has been a gradual homecoming of capital which had previously fled into pounds or dollars. The improvement in the franc has been small and it has been at the expense of the pound rather than of the dollar, but it is a tangible reward to the Daladier Government for its heroic efforts, and it comes despite unsettling developments in Franco-Italian relations.

* * *

Sterling has been given some slight help by technical considerations. Shorts have a healthy respect for the power of the Equalization Fund to initiate a rally and a covering movement at almost any time under present conditions. Whether or not a sharp rally occurs, the pound has apparently reached a point which is considered worth defending, as witnessed by the action of the English Government in restricting foreign loans.

†—Nominal quotations. ¶—Free rate. **—Official rate. ‡—Rate not available. §—Travel lira 4.75c.

Security Statistics

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

1937 Indexes High	1937 Indexes Low	No. of Issues (1925 Close—100)	1938 Indexes High	1938 Indexes Low	Dec. 3	Dec. 10	Dec. 17
122.0	54.3	330 COMBINED AVERAGE	77.8	44.2	68.8	67.1	68.8
253.3	111.4	5 Agricultural Implements	133.9	88.5	109.8	109.5	114.4
72.6	34.0	6 Amusements	47.9	24.7	42.3	43.3	40.2
146.6	52.1	16 Automobile Accessories	91.0	43.3	82.4	80.8	84.9
30.1	8.9	12 Automobiles	14.8	7.0	12.5	12.2	12.2
178.0	73.4	9 Aviation (1927 Cl.—100)	168.4	75.2	155.0	159.6	168.4h
28.5	9.3	3 Baking (1926 Cl.—100)	16.1	8.9	14.0	13.5	13.6
308.6	135.4	3 Business Machines	203.3	120.2	177.2	175.4	179.9
247.7	132.6	9 Chemicals	177.5	111.6	160.7	158.2	161.2
88.3	32.9	18 Construction	50.2	25.6	43.3	41.7	44.3
361.0	193.4	5 Containers	246.2	173.8	220.1	218.2	232.2
217.3	75.3	9 Copper & Brass	129.6	60.0	105.7	108.2	114.2
43.0	24.5	2 Dairy Products	28.0	21.8	23.8	23.1	23.6
42.7	15.2	9 Department Stores	27.4	12.2	23.4	22.8	22.6
108.8	45.2	9 Drugs & Toilet Articles	65.5	40.1	57.8	50.2	48.8
388.4	182.6	2 Finance Companies	329.0	158.1	313.0	311.1	320.3
71.9	37.5	7 Food Brands	79.2	33.3	73.1	70.4	70.1
53.2	25.9	4 Food Stores	35.3	20.5	32.9	32.9	31.5
122.3	46.4	4 Furniture & Floor Covering	71.4	36.9	65.1	62.8	65.5
1160.6	894.0	3 Gold Mining	1262.1	953.7	1229.5	1207.1	1240.7
58.6	25.8	6 Investment Trusts	32.1	21.1	26.4	26.1	26.6
317.8	167.2	4 Liquor (1932 Cl.—100)	223.7	140.7	205.8	187.9	189.5
209.8	97.8	9 Machinery	138.0	77.6	118.1	117.6	123.0
104.3	53.8	2 Mail Order	85.8	49.1	77.8	80.0	83.8
109.6	47.5	4 Meat Packing	56.5	36.5	45.2	46.6	46.3
334.1	138.6	15 Metals, non-Ferrous	195.9	116.0	165.0	163.0	168.9
26.5	7.4	2 Paper	14.0	5.8	11.5	12.0	12.5
158.8	90.8	23 Petroleum	113.0	76.2	96.1	94.0	96.8
114.9	50.5	18 Public Utilities	65.6	38.8	53.6	51.7	54.4
31.7	13.3	4 Radio (1927 Cl.—100)	18.9	10.3	15.5	14.9	15.2
112.9	37.7	9 Railroad Equipment	58.6	28.2	49.6	50.2	54.8
48.6	16.2	23 Railroads	18.6	10.6	15.3	14.9	15.4
28.5	6.9	3 Realty	9.5	4.7	7.5	7.0	7.1
87.6	34.9	3 Shipbuilding	71.3	36.1	71.0	70.7	70.9
165.6	69.6	13 Steel & Iron	106.5	55.2	91.4	90.6	94.8
45.2	21.6	6 Sugar	25.7	17.4	21.9	19.2	18.5
171.2	118.6	2 Sulphur	169.1	118.6	146.8	145.0	146.4
85.3	43.2	3 Telephone & Telegraph	60.0	37.6	50.0	48.5	50.3
91.8	35.3	7 Textiles	49.7	27.9	43.5	43.2	43.8
29.2	10.7	4 Tires & Rubber	20.6	10.0	18.1	18.4	19.6
99.4	68.3	4 Tobacco	86.1	63.8	83.2	82.7	82.8
71.9	20.6	5 Traction	39.8	15.6	37.7	35.5	35.1
346.8	157.7	4 Variety Stores	243.3	146.0	226.8	222.7	210.2
.....	.....	22 Unclassified (1937 Cl.—100)	135.8	84.7	124.1	118.1	119.2

h—New HIGH this year.

DAILY INDEX OF SECURITIES

	N. Y. Times 40 Bonds	Dow-Jones Avgs. 30 Indus.	Dow-Jones Avgs. 20 Rails	N. Y. Times 50 Stocks High	N. Y. Times 50 Stocks Low	Sales
Monday, Dec. 12	70.54	148.65	29.45	103.56	102.51	899,305
Tuesday, Dec. 13	70.74	149.59	29.86	103.62	102.62	1,093,550
Wednesday, Dec. 14	71.23	151.83	30.86	105.55	103.36	1,965,054
Thursday, Dec. 15	71.41	151.82	31.10	106.71	105.19	1,798,410
Friday, Dec. 16	71.29	150.89	30.51	105.87	104.79	1,147,240
Saturday, Dec. 17	71.12	150.36	30.35	105.62	104.66	452,870
Monday, Dec. 19	71.10	150.38	30.24	105.50	104.06	1,104,640
Tuesday, Dec. 20	71.09	150.46	30.09	104.90	103.94	937,290
Wednesday, Dec. 21	70.92	149.58	29.95	104.61	103.38	1,057,745
Thursday, Dec. 22	71.15	150.53	30.60	104.65	103.49	1,042,920
Friday, Dec. 23	71.26	151.39	31.13	105.83	104.64	1,216,637

STOCK MARKET VOLUME

Week Ended Dec. 17	Week Ended Dec. 10	Week Ended Dec. 3
7,356,429	4,615,700	5,039,882
Total Transactions	Same Date	Same Date
Year to Dec. 22	1937	1936
288,087,342	400,719,942	487,913,736

COMMENTS

Generally speaking, the market gave a fairly good account of itself during the fortnight ended Dec. 24 in view of tax selling and signs of pre-holiday hesitation in the business indexes. A rally of about 3% in our Combined Average of 330 active stocks during the week ended Dec. 17, accompanied by expanding volume, was followed during the ensuing week by a moderate upward movement on a much lighter volume of transactions. As pointed out in our last issue, the market as a whole has cancelled about half of its post-Munich rise, volume has shrunk to less than half of what it was at the peak of that rise, and even more reassuring from a purely technical viewpoint, our daily index of 40 industrials has been showing greater strength during the past few weeks than our weekly index of 330 stocks.

* * *

The Aviation group, after advancing during the week ended Dec. 17 to the highest level since Mar. 20, 1937, sold off rather sharply during the following week upon publication of estimates that, owing to delivery difficulties, fourth quarter profits will probably be the smallest for any three-months' period this year. Other groups which continue to display greater strength than the general market include Automobile Accessories, Containers, Finance Companies, Furniture, Gold Mining (which has been true to form in moving against the market), Mail Order, Shipbuilding and Tires.

* * *

Amusement stocks held fairly well through the week ended Dec. 10 and then turned rather weak under the leadership of a sharp break in Loew's. Suits brought by stockholders to enjoin and recover allegedly excessive salaries and bonuses paid to executives were the seemingly illogical cause of the break in Loew's. Paramount, however, which has shown moderate strength of recent weeks, was able to resist the weakness in Loew's. Agricultural Implements were rather flabby under a none too impressive outlook for earnings during the first half of 1939.

* * *

The Department Store group reflected disappointment that the pre-holiday trade has not quite equalled earlier expectations. Drugs have not yet quite shaken off the depressing influence of the McKesson & Robbins scandal. Sugars were still depressed by dissatisfaction over the 1939 quota. From a short range viewpoint, Railroad Equipments have displayed strength in anticipation of expanding orders for new rolling stock.

* * *

Going to press early, because of the holidays, has made it impossible to include figures for week ended Dec. 24 in the accompanying tabulation of Price Index data; but these will appear in our next issue.

Six Stocks for First Quarter Profits

(*Continued from page* 320)

Trust has consistently maintained operations on a profitable basis over a long period of years, and in 1937 the company's volume of business and earnings set a new high record. In that year net available for the common stock was equivalent to $6.36 per share and dividends totaled $5. Earnings in 1936 were equivalent to $6.07 per share for the common stock. In the first six months of 1938, total receivables purchased by the company were off 54% and earnings in that period were equivalent to $2.31 a share, nearly a third lower than the $3.43 reported in the first six months of 1937. Chiefly responsible for the current decline was the sharp slump in retail sales of automobiles.

In view of the recent sharp upturn in automobile sales, it is a safe assumption that the company's business has responded proportionately. Dividends during 1938 were paid at the rate of $1 per share quarterly on the common stock and the latter issue, recently selling around 60, affords a yield of about 6½%. With dividends being earned by a fair margin of safety, even in the face of the drastic decline in first half earnings, on their merit as an income-producing vehicle alone, the shares would warrant favorable consideration. Moreover, with a fairly substantial improvement in earnings foreshadowed, the shares should record a fair measure of price appreciation.

Which Industries Have Best Profit outlook for 1939?

(*Continued from page* 304)

The paper industry has had a substantial recovery in volume, with orders now in a lull, but prices have failed as yet to recover enough to restore satisfactory profit margins. First quarter volume and earnings should be pretty close to the quarter now ending. The liquor industry enters a new year with competition keener than ever, its major price trend downward, nearby gains in consumption doubtful and profit margins of most distillers narrowing. In the motion picture industry, trend of total domestic theater patronage is upward, with a favorable seasonal factor continuing through the first quarter. Generalized comment is useless, however, because of varying dependence of individual producers upon a shrinking foreign market, as well as varying fortunes of costly films which can make or lose money regardless of the general trend of theater business.

RETAIL TRADE — As reported by the Federal Reserve Board, dollar volume of department store trade, on a national average, is running about 2% under a year ago. With allowance for lower prices, this means a modest gain in volume. From present indications total factory payrolls in the first quarter will be at least 15% higher than in the first quarter of 1938, while farm income and aggregate national income payments for the period figure to be a shade above year-ago levels. So far as consumer purchasing power is

the story, the trade outlook for the near term is fairly good. Except on necessitous goods, however, there is thus far a minor lag in consumer willingness to spend. The general picture will probably change very little for good or bad in the first quarter. The mail order, variety and specialty merchandisers will remain in the best position; and biggest percentage gains from a year ago will center most strongly in the industrial areas.

The Investment Clinic

(*Continued from page 323*)

the thought in mind that some of our readers will find such a list helpful we have selected a group of preferred stocks. The various issues comprising this list are selling on a basis to yield a good return and all of them possess varying degrees of investment strength. The current yield affords a rough yardstick of their relative investment rating; the yield usually being in inverse ratio to the rating.

Many investors tend to shy away from preferred stocks. This tendency is doubtless born of the fact a preferred stock is admittedly a "hybrid." In other words, it is reasoned that a preferred stock, on the one hand, affords none of the protective features of a bond, even a debenture issue, and on the other is devoid of the speculative possibilities of a common stock, owing to the fixed-dividend feature and, in many cases, the presence of a call price. Moreover, it has been shown that preferred stocks may decline in value rapidly whenever the trend of earnings appears to threaten the security of dividend payments. These are the undesirable features of preferred stocks and it must be conceded that they are factually true. Actually, however, they are likely to prove to be largely academic in the case of many preferred issues and the fact remains that among preferred stocks are to be found many sound income-producing issues.

For the investor obliged to emphasize income, the argument against preferred stocks does not appear sufficiently compelling for him to forego entirely the opportunities which this group afford in the way of dependable yield.

Your Stake in Republic Steel

(*Continued from page 307*)

intimately connected with general business trends. The excellent start of the motor industry in its new model year means much to Republic, as do the increasing use of alloy and special steel products. Share for share, the common stock probably represents greater potential earning power today, in view of 1939 prospects, than it did four years ago.

The various issues of Republic Steel therefore offer the opportunity to share in continued business recovery in a wide range between speculative and fairly conservative investment. The two bond issues, one convertible, the other not, yield close to 5%. The preferred stocks are not paying dividends, but accumulations are piling up, amounting to \$19.50 a share on the older issue and \$4.50 on the prior preferred at the beginning of 1939. The common stock is even further removed from a dividend basis and could expect to participate directly in earnings only when and if a prolonged period of satisfactory business allows the payment of accumulations on the preferreds. Prospective dividends will not, however, be the incentive toward buying the common at this time, so much as the desire to participate marketwise in whatever prosperity lies ahead. For this purpose the common stock, most speculative of all Republic Steel issues, is undoubtedly the best.

As I See It!

(*Continued from page 295*)

an outworn, outdated communism.

How the Nazis laughed! The most interesting illustration of the contempt in which the Nazis held Chamberlain appeared in the newsreel of the signing of the Munich Pact. The picture shows Chamberlain walking up the stairs and into the conference room at the same time Hitler walks from one end of the room and seats himself on a small sofa near the entrance. A group of junior officials go to meet Chamberlain, shutting out the view of Hitler who does not rise to greet the Minister as he enters. It was this amazing discourtesy to the Prime Minister of a great nation that shocked me greatly, and made me realize that England had nothing to hope for from the Nazis; that the policy of appeasement was a snare and a hoax.

Since then the Nazis have frankly come out in the open, vigorously carrying on their revolution—which is to gain control of the economic and financial machinery of Germany step by step, rather than by a sudden destructive coup. First there was the mad orgy in the recent at-

tack on the Jews (the most helpless section of the population) followed by the confiscation of property of great economic value. By this method the Nazis sought to retain their hold on the rest of the people and minimize the repercussions resulting from the ensuing uncertainties. At the same time they began absorbing the wealth of another group—the Catholics. This has not received as much publicity as the confiscation of Jewish property, because the leaders feared the effect on Catholics everywhere—and particularly in South America on which Germany is in a large way economically dependent today in view of boycotts everywhere. Since then she has begun her campaign on a third group—the bourgeoisie.

In attacking the financial and industrial leaders at this time, the Nazis have fallen into the same error as the Communists, although Germany believes that she has prepared the ground by training a sufficient number of executives to replace those she has eliminated. The Russians killed that class off at the outset, yet I doubt whether the new Nazi managers will be able to cope with the complicated situations of today with the skill of the displaced executives.

It is my belief that it was at no time necessary to give way to the Nazis because they never intended to risk their beautiful war machine. They just couldn't. For example, when you consider the expense to England of assembling her fleet at the time of the Czechoslovakian crisis ran into millions of pounds without a shot being fired, you can realize what it would have cost Germany to go to war. As it is, the expense of sending her army into a submissive Austria and Czechoslovakia has cost her—and will continue to cost her—a pretty penny. The Nazi policy was definitely to seek to gain their ends by bluff and threats behind the facade of their war machine.

The truth of this is being recognized today, as evidenced by the growing opposition, but the world will have to fight a stronger Germany than the one before the episode of Czechoslovakia.

Hitler won a decisive victory at Munich, the extent of which is now being widely recognized in England and is crystallizing in the strength-

ening of the opposition to Chamberlain. It blocked the promised loan to Germany which Schact came to London to arrange. It brought demands for an investigation into the delays of the rearmament program since the Munich Pact. Even the Nazis, formerly adamant, became willing to permit Mr. Rublee to visit Berlin for talks regarding orderly exodus of refugees.

The opposition to the Nazis is growing apace the world over, as it is becoming generally recognized that Germany is a menace to the world economically, even without Hitler's delusions of grandeur. While the Nazis are spending their all in armaments, to them it is money spent speculatively in a venture to secure an empire. For the other nations it is just so much waste—the armament expenditures being purely a defense measure at the expense of the standard of living for all. Add to that the competition of a 10-hour work day in highly mechanized Nazi Germany, and bankruptcy stares many a nation in the face.

It is a realization of this situation that is arousing England to protection of her trade and the institution of a campaign to combat Nazi economic aggression. Our own government is also keenly alive to this danger. It has not been taken in by Nazi pretense of impregnability as evidenced by the sharp response of Acting Secretary of State Sumner Welles to the German Charge d'Affaires in the recent altercation over the Ickes speech. However, this is not true the world over for many nations do not yet realize that the Nazis are a greater menace than the Communists.

The 1939 Congress

(Continued from page 300)

Inasmuch as the President's closest advisors now regard W P A as a political liability rather than an asset—November 8 demonstrated that—some sort of overhauling in the interest of financial and social economy is almost inevitable.

The system of Social Security is sure to be revised, though it is doubtful if Congress will accept all the changes recommended by the President's advisory committee. Those most likely of adoption include extending coverage to 5,000,000 people—domestics and farm help, employees of charitable and philanthropic institutions—now ineligible for benefits; forcing the government to bear one-third of the pay roll tax for old age insurance, with employers and employees paying a like percentage; insistence that tax receipts for social insurance be segregated in a separate trust fund and not used to pay the current costs of government.

Broadening the base and increasing the amounts of security benefits will be proposed for political as well as social reasons—namely, in an effort to block enactment of some sort of Townsend plan. The latter movement, in one form or another, will command many supporters in the next Congress, and it may escape from Senate or House committee for a floor showdown. It is hoped, however, that more generous treatment of the old folks in accord with these amendments will appease the more excitable and susceptible enthusiasts for $200 a month or $30 every Thursday.

Government reorganization, though defeated in the last Congress, stands a fair chance of passage, but only in its more innocuous form. Congress will undoubtedly give Mr. Roosevelt six more secretaries, permit him to reshuffle executive agencies which do not exercise quasi-judicial authority and create a new Department of Public Welfare. But there is no chance that it will abolish the office of Controller General and substitute the post-audit system the President desires. Had there been any likelihood of such a change, disclosures of lax investigation of McKesson & Robbins assets killed it.

The O'Mahoney Monopoly Committee will present no major recommendations at this session, with the possible exception of suggestions for revising the patent laws. These will be designed to shorten the life of a patent—perhaps from seventeen to seven years—and to reduce the period when the notice, "patent applied for," gives a corporation indefinite control of basic inventions. These novel proposals, together with anti-trust revision asked for by Attorney General Cummings in his annual report, will be handled gingerly by the Congress. It is probable that no action will be taken

without further study by the Congress itself—meaning no legislation for a year or two.

National defense will, of course, dominate all other issues if the President can convince the Congress that the rise of dictators actually endangers American interests at home. He will ask for more money for battleships, planes, mechanized equipment, storage of essential materials, educational orders designed to gear industry for wartime needs, possibly a larger personnel for army, navy and aviation forces. There will be scant disposition to oppose these requests unless it appears that the rearmament program, like the W P A and P W A, is to be used as a pretext for political spending—for producing a sort of political recovery insuring Democratic victory two years hence.

The Congress will make a distinction between rearming for national, domestic defense and rearming for foreign aggression or political security. That fight will be slow in developing, however, if only because opposition to a national defense program leaves a statesman open to the charge that he is unpatriotic.

The next session will be quite as important negatively as it will be affirmatively. It may become notable for what it will not do as for what it will do. In other words, there will be NO major legislation on power, taxes or regimentation of business and industry. The boys and girls on Capitol Hill are weary of oiling every wheel and lever in the economic structure, and are more than willing to turn the job back to the men who created the machine in the first instance.

As sports announcers say in turning over the microphone to topnotch artists when the battle grows too hot for them to handle, take it over—it's yours, men of business and industry and finance!

Foster Wheeler Turns the Corner

(*Continued from page* 311)

common stock of $10 par value. The preferred has dividend arrears of $36.75 as of April 1, 1938. Selling currently at 90 as compared with a 1938 low of 50 the preferred has partially reflected the company's improved outlook but still offers attractive opportunities for appreciation and eventual dividends to those who don't mind inactive markets and are willing to forego immediate return.

The common stock has always been a fast mover, the extreme range being from a high of 104½ in 1930 to a low of 3 in 1932. In 1937 the range was 11½ to 54½. Because of the small number of shares outstanding the common reflects very quickly a change in the company's outlook. Unlike most stocks, the 1929 high was exceeded in 1930, probably because of the utility building program sponsored by the Hoover administration in 1930.

With taxes up, labor rates high, and the general business level depressed, business executives are driven more and more towards plant economies through up-to-the-minute machinery and equipment as the best available avenue in cutting down costs. The efforts of Bethlehem Steel and Southern Railway in this direction are cases in point. One of the methods of achieving plant economies is to install more efficient power plants or to fit existing diesel or steam engines with waste heat

boilers. This tendency is already aiding Foster Wheeler and now that a higher backlog of unfilled orders is in hand it is reasonable to expect that on future competitive bids greater care will be taken to insure profitable operations.

The common stock is volatile and speculative but because the risks are greater the profits are apt to be commensurate. Foster Wheeler gives every indication of facing increasing demand for its products from both shipbuilding and utility expansion, not to mention the oil industry and the likelihood of general business improvement. Despite its poor earning record over the last few years FWC selling currently at 26 has much more than average appeal. If utility expansion is accorded Government cooperation, as seems probable, instead of the hindrance of the last six years, it will have few superiors as a long-term speculation.

As the Trader Sees Today's Market

(*Continued from page* 315)

than they were even in 1929. There are various reasons for this. Among them is that much-abused word "inflation," for certainly the net effect of our Government's monetary experiments and its lavish spending of borrowed money has been to lessen the average investor's fundamental faith in money. Then, too, extremely low interest rates on first grade bonds will inevitably incline investors to stocks in which they think there is a reasonable chance for satisfactory return either in the form of dividends or appreciation of capital.

Answers to Inquiries

(*Continued from page* 328)

troduced over the past few years and are continually growing in importance as revenue-producers. Fourth quarter earnings of Atlas undoubtedly benefited from the expansion in automobile production. Moreover, the hexahydric alcohol division enjoyed an uptrend in sales due to business recovery in general. If consumer purchasing power continues, profits should grow accordingly. There is no reason to believe that the company will not benefit from the rearmament program, but main gains in revenue will continue to be derived directly from industry. Competitively, the company is strong, and due to the efficient management, should be able to maintain a position of leadership in the industry. Dividends paid during 1938 totalled $2.25 which afforded holders with a reasonable rate of yield. The last report available for the company is for the nine months ended September 30, 1938, when earnings were $1.96 per share. The dividend was probably paid because of the expectation of earnings higher than the $2.25 and also because of the strong financial position—total current assets compared to total current liabilities in the ratio of approximately 8 to 1 at the close of the third quarter. In view of the future possibilities in Atlas, we advise retention of your commitment for the secure income and also for price appreciation possibilities from present levels.

The Changing British Position

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tical accomplishments, the treaty is perhaps open to criticism. From the idealistic point of view, it is a worthwhile document. Commenting upon the Pact, the London Economist, prominent British economic journal, points out that "the equality of incidence of the concessions granted to direct trade between the United Kingdom and the United States is of more formal and legal than real importance," adding that while the agreement "does not go far enough" it constitutes "a victory for sanity, friendship and common sense."

As regards the possible effects of the Trade Treaty upon the future movements of the pound, it is reasonable to assume that fluctuation will be within relatively narrow ranges. Should the currency be threatened, the British will no doubt come to its assistance, even at sacrifices, if necessary, because a serious decline in the pound would not only markedly impair the treaty but may even bring about a complete collapse of the understanding. In other words, as soon as a declining pound will begin to affect trade, steps will be taken to end fluctuations.

In conclusion: Changes for the better in Great Britain's economic structure, as evidenced by a decrease in unemployment, a gain in business activity and an increase (within the past two months) in foreign trade, suggest that the setback which began more than a year ago may be said to have run its course. This fact, together with the various instrumentalities which have been created for the purpose, should affect the pound in the direction of greater stability around prevailing levels.

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